FINANCIAL STATEMENTS 2019

UGANDA

BANK OF AFRICA

BMCE GROUP

Contets

Opening date

October 2006

Capital as at 31/12/2019

Uganda Shillings (UGX) 46.775 billion

Board of Directors as at 31/12/2019

George W. EGADDU, Chairman
Amine BOUABID
Abdelkabir BENNANI
Gertrude K. BYARUHANGA
Arthur ISIKO
Ghali LAHLOU
Henri LALOUX
Bernard R. MAGULU
Conrad K. NKUTU

Auditors

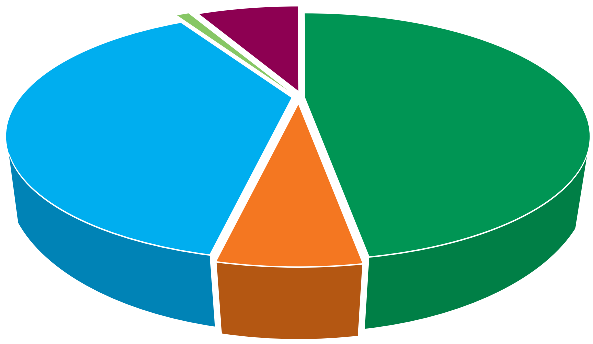
KPMG

Registered office

BANK OF AFRICA House
Plot 45, Jinja Road
P.O. Box 2750 - Kampala - UGANDA
Tel.: (256) 414 302001
Fax: (256) 414 230 902
SWIFT: AFRIUGKA

feedback@boauganda.com
www.boauganda.com

Principal Shareholders as at 31/12/2019



BMCE Bank of Africa	47.41%
BANK OF AFRICA - KENYA	5.91%
AFH-OCÉAN INDIEN	37.96%
NETHERLANDS DEVELOPMENT FINANCE COMPANY (FMO)	0.96%
CENTRAL HOLDINGS Ltd.	7.76%

Financial analysis

The Ugandan economy reported strong growth in 2019, estimated at 6.3%, largely driven by the expansion of services. Services growth averaged 7.6% in 2019, and industrial growth by 6.2%, driven by construction and mining. Retail, construction, and telecommunications were also key economic drivers. Moreover, Headline inflation for the year 2019 remained subdued averaging at 3% while Composite Index of Economic Activity (CIEA) kept an upward trajectory implying an improvement in general economic activity.

In 2019, Government spending continued to increase, underpinned by public infrastructure and capital investments for the nascent oil and gas industry. Expenditures increased faster than domestic revenues, widening the fiscal deficit in 2019. The

UGANDA

Key figures 2019

(in UGX million)

Activity	2018	2019	Variation
Deposits	568 867	578 563	1,7 %
Loans	344 139	397 152	15,4 %
Number of branches	35	34	-2,9 %
Structure			
Total Assets	798 923	803 070	0,5 %
Shareholders' equity	111 852	123 523	10,4 %
Number of employees	448	449	3,1 %
Income			
Operating income	86 275	98 769	14,5 %
Operating expenses (including depreciation and amortization)	60 816	69 448	14,2 %
Net Operating Income	25 459	29 321	15,2 %
Cost of risk in value (*)	5 635	2 621	-53,5 %
Income Tax	4 676	6 546	40,0 %
Profit after tax	15 148	20 154	33,0 %
Operating ratio (%)	70,5 %	70,3 %	
Cost of risk (%)	1,4 %	0,4 %	
Return on Assets (ROA %)	1,9 %	2,5 %	
Return on Equity (ROE %)	13,8 %	17,1 %	
Capital Adequacy Ratio			
Tier 1	77 630	92 058	13,3%
Tier 2	3 739	4 901	31,1%
Risk Weighted Asset (RWA)	519 791	558 073	7,4%
Tier 1 + Tier 2 / RWA (%)	15,6 %	17,4 %	

(*) Including general provision

+ 0,5 %
Total assets

Deposits

2018
568 867 UGX million

2019
578 563 UGX million

Loans
+ 15,4 %

Net operating income
+ 15,2 %

deficit was largely financed through external borrowing, supplemented with domestic securities. Despite the rise in the deficit, Uganda remained classified at low risk of debt distress although the country debt reached an estimated 43.6% of GDP, up from 25% in 2012, raising medium-term concerns.

Also prominent, exports, dependent on primary products, have not kept up with imports, and widened the trade deficit to an estimated 9.4% of GDP in 2019 from 8.3% in 2018. The increasing current account deficit was largely financed by foreign direct investment (2.6% of GDP) and externally financed projects. External reserves were at a comfortable 4.4 months of imports in 2019, while the exchange rate was stable, averaging 3,727 Ugandan shillings per dollar.

During the year 2019, the bank continued to pursue its responsible and sustainable growth strategy that led us to deliver UGX 20 billion in net earnings, thus exceeding our 2018 results by 33% and further strengthening our capital levels. Client lending activity remained strong with loans and advances growing by 15% over 2018, largely to small and medium enterprises (SMEs). We upheld our goal of committing funds to the biggest impact areas of our economy - education, trade, manufacturing and construction. In the same period, while our customer deposits marginally grew by 2%, our off-balance sheet commitments exceeded expectations with a 41% growth rate, underscoring our efforts to finance trade and infrastructure in Uganda.

Significant performances (in UGX million)

Loans

397.1 +15.4 %

2019

2018 344.1

Net Operating Income

29,3 +15.2 %

2019

2018 25,4

Stock information (in thousands of UGX)

	2017	2018	2019	AAGR*
Earning per share	0.4	0.3	0.4	9.9%
Shareholders' equity per share	2.3	2.4	2.6	7.4%
Dividend per share	0.2	0.2	0.2	4.6%

(*) Average annual growth rate

Donations to the education sector

Highlights

February

- Joined the Corporate League Tournament that brings together over 50 corporate organizations competing in several sports disciplines.

- The Bank hosted management of various education institutions to discuss pertinent issues affecting the education sector and present the holistic solutions BOA provides to the sector.

April

- Participation in the Uganda National Association of Building and Civil Engineering Contractors (UNABSEC) convention which brings together all major players in the construction sector. UNABSEC represents construction firms on several committees.

July

- The Bank rolled out Agent Banking services across the network to bring affordable banking services closer to existing customers and the under banked and unbanked population.

August

- Appointment of a new Chairman.

September

- Participation of the 2019 BANK OF AFRICA Director's Meetings in Madrid, Spain.

October

- Participation in the Uganda Bankers Association Sports gala bringing over 25 Commercial Banks and financial institutions to compete in multiple sports disciplines.

November

- As part of the Bank's CSR support to the community, BOA staff participated in the MTN Marathon with support to a noble cause of improving maternal health in Uganda.

December

- Rewarded the top mobile wallet users and oldest active customers with gift hampers and letters of appreciation at the 2019 Customer service week.

- The Bank's focus for the 2019 Customer Service Week was hinged on appreciating the oldest, most active digital users and giving to the education sector. The Bank donated numerous items and supports needs of over 30 entities within the communities the Bank operates.

Staff at the Bankers' Sports Gala

Signing of home loans partnership with Comfort Homes

Donations to the Midmay Hospital

The Bank rewards some of its best customers

Corporate Information

Registered Office

The address of the registered office is:

BANK OF AFRICA – UGANDA LIMITED

Plot 45, Jinja Road

P. O. Box 2750

Kampala, Uganda.

Company Secretary

Rehmah Nabunya

Plot 45, Jinja Road

P.O. Box 2750

Kampala, Uganda.

Auditor

KPMG

Certified Public Accountants

3rd floor, Rwenzori Courts

Plot 2 & 4A, Nakasero Road

P.O. Box 3509

Kampala, Uganda.

Branches

ARUA BRANCH
Plot 19 Avenue Road
P.O. Box 894 Arua, Uganda

BBIRA MINI BRANCH
Plot 2731 Mityana Road, Bulenga
P. O. Box 2750 Kampala, Uganda

BUSINESS CENTRE
Plot 9, Kitante Road,
P.O. Box 2750 Kampala, Uganda

ENTEBBE BRANCH
Kampala Road
P. O. Box 2750 Kampala, Uganda

EQUATORIAL BRANCH
Plot 84/86 Ben Kiwanuka Street
P.O. Box 2750 Kampala, Uganda

FORT PORTAL BRANCH
Plot 14 Bwamba Road
P. O. Box 359 Fort portal, Uganda

GULU BRANCH
Plot 11 Awere Road
P. O. Box 921 Gulu, Uganda

HOIMA BRANCH
Plot 13 Wright Road Hoima
P. O. Box 2750 Kampala, Uganda

JINJA CLIVE ROAD BRANCH
Plot 18, Clive Road East
P.O. Box 2095 Jinja, Uganda

JINJA MAIN BRANCH
Plot 1 Main Street
P.O. Box 2095 Jinja, Uganda

KABALAGALA BRANCH
Plot 559 Ggaba Road
Kabalagala
P.O. Box 2750 Kampala, Uganda
KALONGO MINI BRANCH
Plot 16 Kalong Road, Kalongo TC
P. O. Box 929 Lira, Uganda

KAMPALA ROAD BRANCH
Plot 48 Kampala Road
P.O. Box 2750 Kampala, Uganda

KAWEMPE BRANCH
Plot 125 Bombo Road
P. O. Box 2750 Kampala, Uganda

KOLOLO BRANCH
Plot 9 Cooper Road (Kisementi)
P.O. Box 2750 Kampala, Uganda

LIRA BRANCH
Plot 1A Balla Road
P.O. Box 929 Lira, Uganda

LUZIRA BRANCH
Plot 1329/1330 Portbell
P.O. Box 2750 Kampala, Uganda

MAIN BRANCH
Plot 45, Jinja Road
P.O. Box 2750 Kampala, Uganda

MASAKA BRANCH
Plot 7, Birch Avenue
Masaka, Uganda

MBALE BRANCH
Plot 26, Cathedral Avenue
P.O. Box 553 Mbale, Uganda

MBARARA BRANCH
Plot 1 Mbaguta Road
P.O. Box 1163 Mbarara, Uganda

MUKONO BRANCH
Plot 13 Kampala Road
P.O. Box 2750 Kampala, Uganda

NAKIVUBO BRANCH
Plot 15 Nakivubo Road, Uganda
P.O. Box 2750 Kampala

NAMASUBA BRANCH
Plot 4010, Entebbe Rd, Namasuba
P. O. Box 2750 Kampala, Uganda

NANSANA BRANCH
Plot 5390 Nansana
P.O. Box 2750 Kampala, Uganda

NATEETE BRANCH
Plot 1-2 Old Masaka Road
P. O. Box 2750 Kampala, Uganda

NDEEBA BRANCH
Plot 1024 Masaka Road, Ndeeba
P. O. Box 2750 Kampala, Uganda

NTINDA BRANCH
Plot 49 Ntinda Road, Ntinda
P.O. Box 2750 Kampala, Uganda

OASIS BRANCH
Oasis Mall
Plot 88/94 Yusuf Lule Road
P.O. Box 2750 Kampala, Uganda

PARK BRANCH
Mukwano Centre,
Plot 40/46 Ben Kiwanuka Street
P.O. Box 2750 Kampala, Uganda

PATONGO BRANCH
Plot 33 Dollo Road, Patongo
P. O. Box 929 Lira, Uganda

RUBIRIZI BRANCH
Mbarara – Kasese Highway
P. O. Box 1163 Mbarara, Uganda

RWENZORI MINI BRANCH
Plot 1 Lumumba Avenue
P. O. Box 2750 Kampala, Uganda

WANDEGEYA BRANCH
KM Plaza, Plot 85 Bombo Road
P. O. Box 2750 Kampala, Uganda

Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31 December 2019, which disclose the state of affairs of BANK OF AFRICA – UGANDA Ltd ("the Bank"). The financial statements are prepared in accordance with International Financial Reporting Standards, the Companies Act of Uganda, 2012 and the Ugandan Financial Institutions Act, 2004 (as amended in 2016).

1. PRINCIPAL ACTIVITIES

The Bank is a licensed financial institution under the Financial Institutions Act and is a member of the Uganda Bankers Association. The Bank is engaged in the business of commercial banking and the provision of related banking services.

2. RESULTS AND DIVIDEND

The Bank's profit for the year ended 31 December 2019 was Shs 20,154 million (2018: profit of Shs 15,148 million) as shown in the statement of comprehensive income (Page 12).

The directors recommend that a dividend of Shs 195.00 per ordinary share be paid for the year ended

31 December 2019 (2018: 181.36). The total dividends for the year will be Shs 9,121 million (2018: Shs 8,483 million).

3. DIRECTORS

The directors who held office during the year and to the date of this report were:

George William EGADDU	- Board Chairman (Appointed 15 March 2019)
Amine BOUABID	- Non-Executive Director
Abdelkabir BENNANI	- Non-Executive Director
Mohan M. KIWANUKA	- Non-Executive Director (Ceased 15 August 2019)
Ghali LAHLOU	- Non-Executive Director
Conrad Kirunda NKUTU	- Non-Executive Director (Appointed 28 March 2019)
Kathleen GOENSE	- Non-Executive Director (Ceased 25 November 2019)
Gertrude K. BYARUHANGA	- Non-Executive Director
Henri LALOUX	- Non Executive Director (Appointed 17 October 2019)
Arthur ISIKO	- Managing Director
Bernard R. MAGULU	- Executive Director

4. CORPORATE GOVERNANCE

The Bank has established a tradition of best practices in corporate governance. The corporate governance framework is based on an effective experienced board, separation of the board's supervisory role from the executive management and constitution of board committees generally comprising a majority of non-executive directors and chaired by a non-executive independent director to oversee critical areas.

5. BOARD OF DIRECTORS

The Bank has a broad-based board of directors. As at 31 December 2019, the Board of Directors consisted of 9 members. The board functions as a full board and through various committees constituted to oversee specific operational areas. The board has constituted five committees. These are the Risk Management Committee, Asset and Liability Management Committee, Compensation Committee, Audit Committee, and the Credit Committee. All board committees are constituted and chaired by non-executive directors. The membership on these committees at 31 December 2019 was as follows:

Committee	Chairperson	Membership	Meeting frequency
Risk Management	Non-executive director	3 non-executive 2 EXECUTIVE	QUARTERLY
Asset and Liability Management	Non-executive director	3 non-executive 1 EXECUTIVE	QUARTERLY
COMPENSATION	NON-EXECUTIVE DIRECTOR	4 NON-EXECUTIVE	QUARTERLY
AUDIT	NON-EXECUTIVE DIRECTOR	4 NON-EXECUTIVE	QUARTERLY
Credit	Non-executive director	4 non-executive 1 executive	Quarterly

In addition to the above committees, there are committees at management level comprised of senior management that meet on a daily, weekly, monthly, and/or quarterly basis.

6. AUDITOR

The auditor, KPMG, being eligible for reappointment has expressed willingness to continue in office in accordance with the terms of Section 167 (2) of the Companies Act of Uganda and section 62 (1) of the Financial Institution Act.

7. APPROVAL OF THE FINANCIAL STATEMENTS

The Financial Statements were approved at the meeting of the directors held on 6 February 2020.

By order of the Board

REHMAH NABUNYA
Secretary

Statement of Directors' responsibilities

The Bank's directors are responsible for the preparation and fair presentation of the financial statements for BANK OF AFRICA - UGANDA Limited ("the Bank") set out on pages 12 to 63, comprising the statement of financial position as at 31 December 2019, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards, the Companies Act of Uganda, and the Financial Institutions Act, 2004 (as amended in 2016).

The Directors are also responsible for such internal controls as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the company's ability to continue as a going concern and have no reason to believe the business will not be a going concern for the next twelve months from the date of this statement.

The auditors are responsible for reporting on whether the financial statements give a true and fair view in accordance with the International Financial Reporting Standards (IFRS), Companies Act of Uganda and Financial Institutions Act 2004 (as amended 2016).

Approval of the financial statements

The financial statements of BANK OF AFRICA - UGANDA Limited, were approved by the board of directors on 6 February 2020 and were signed on its behalf by:

Arthur Isiko	Bernard R Magulu	George W Egaddu
Director	Director	Director

Independent auditors' report

Report on the Audit of the Financial Statements

Option

We have audited the financial statements of BANK OF AFRICA - UGANDA Limited ("the Bank"), which comprise the statement of financial position as at 31 December 2019, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, comprising a summary of significant accounting policies and other explanatory information as set out on pages 12 to 63.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of BANK OF AFRICA - UGANDA Limited as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, the Companies Act of Uganda and the Financial Institutions Act, 2004 (as amended in 2016).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Uganda, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements taken as a whole, and in forming our opinion thereon, and the report below is not intended to constitute separate opinions on these matters.

The Key Audit Matter	How the matter was addressed in our audit

Expected credit loss on loans and advances

to customers.

The disclosures associated with loans and advances are set out in the Financial Statements in the following notes:

- Note 2.6 (b) – Summary of significant accounting policies
- Note 3 (a) – Financial risk management
- Note 17

The Key Audit Matter	How the matter was addressed in our audit
On 1 January 2018, the Bank adopted IFRS 9, resulting in impairment charges being recognised when losses are expected rather than when they are incurred. Expected credit loss on loans and advances to customers is considered a key audit matter because the directors make significant judgments over both timing of recognition of	Based on our risk assessment and industry knowledge, we examined the ECL charges for loans and advances to customers and evaluated the methodology applied as well as the assumptions made according to the description of the key audit matter;

The Key Audit Matter

impairment over both timing of recognition of impairment and the estimation of the size of any such impairment. During the year Expected credit loss provisions reduced from Ushs 10,507 Mn as at 31 December 2018 to Ushs 9,932 Mn as at 31 December 2019. The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Bank's ECL calculation are:

Model estimations

Inherently, judgemental modelling is used to estimate ECLs which involves determining Probabilities of Default ('PD'), Loss Given Default ('LGD'), and Exposures at Default ('EAD') and ultimately the Expected Credit Loss (ECL). The PD and EAD models used in the Stage 1 and Stage 2 loans are key drivers of the Bank's ECL results and are therefore the most significant judgmental aspect of the Bank's ECL modelling approach.

For loans that are credit impaired (defaulted loans), management impairment is determined based by comparing the carrying amount with the estimate of the future cash flows discounted using the contractual rate. Management assumes that the contractual rate approximates the original effective interest rate. Management estimates cash flows from both the operations of the customers and discounted collateral values.

Economic scenarios

IFRS 9 requires the Bank to measure Expected Credit Loss (ECL) on a forward-looking basis reflecting a range of future economic conditions. Significant management judgement is applied in determining the economic scenarios used and the probability weightings applied to them and the associated impact on ECL.

Significant Increase in Credit Risk ('SICR')

For the loans to customers, the criteria selected to identify a significant increase in credit risk is a key area of judgement within the Bank's ECL calculation as these criteria determine whether a 12-month or lifetime expected credit loss is assessed.

How the matter was addressed in our audit

— We assessed the modelling techniques and methodology against the requirements of IFRS 9.

— We assessed the design, implementation and tested the operating effectiveness of relevant controls over the:

• Data used to determine the ECL provision, including transactional data captured at loan origination, ongoing internal credit quality assessments, storage of data and interfaces to the expected credit loss model;

• Expected credit loss model, including model build and approval, ongoing monitoring/validation, model governance and mathematical accuracy.

— We assessed and tested the material modelling assumptions as well as overlays with a focus on the:

• Basis for and data used to determine overlays;

• Sensitivity of the provisions to changes in modelling assumptions.

• We examined a sample of exposures and performed procedures to evaluate the:

• Timely identification of exposures with a significant deterioration in credit quality.

• Expected credit loss calculation for exposures assessed on an individual basis.

— Challenging management's assumptions on projected cash flows when assessing stage 3 impairment by evaluating the assumptions against current economic performance, assumptions most commonly used in the Banking industry, and also comparison with external evidence.

— We involved our IT specialists in areas that required specific expertise (i.e. data reliability and the expected credit loss model).

— We involved KPMG financial risk modelling specialists in evaluating the appropriateness of the Bank's IFRS 9 impairment methodologies.

— We assessed the appropriateness of the probability of default, loss given default and exposure at default assumptions.

The Key Audit Matter	How the matter was addressed in our audit
Qualitative adjustments (management overlays) Adjustments to the model-driven ECL results are raised by management to address known impairment model limitations or emerging trends. Such adjustments are inherently uncertain and significant management judgement is involved in estimating these amounts.	— Recomputed the ECL using management's assumptions to determine the consistence of the methodology adopted by management. — We involved KPMG specialists to assess the appropriateness of the Bank's methodology for determining the economic scenarios used, forward looking information and historical probability of default recomputation.
Disclosure quality The disclosures regarding the Bank's application of IFRS 9 are key to explaining the key judgements and material inputs to the IFRS 9 ECL results. Management has provided further information about the loans and advances to customers and off balance sheet instruments in Notes 3 and 17 to the financial statements.	— We assessed whether the disclosures appropriately disclose and address the uncertainty which exists when determining the expected credit losses. — We also assessed the reasonableness of the credit risk analysis that is disclosed in addition to assessing whether the disclosure of the key judgements and assumptions made was sufficiently clear.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and the Companies Act of Uganda, the Financial Institutions Act, 2004 (as amended in 2016) and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by the Companies Act of Uganda we report to you, based on our audit, that:

i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;

ii) In our opinion, proper books of account have been kept by the Bank, so far as appears from our examination of those books; and

iii) The Bank's statements of financial position and comprehensive income are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditors' report is CPA Asad Lukwago P0365.

KPMG

Certified Public Accountants

3rd Floor, Rwenzori courts

Plot 2 & 4A, Nakasero Road

P. O. Box 3509

Kampala, Uganda

Statement of comprehensive income

	NOTES	2019 SHS M	2018 SHS M
INTEREST INCOME	5	72,610	68,276
INTEREST EXPENSE	6	(12,034)	(11,744)
NET INTEREST INCOME		60,576	56,532
FEE AND COMMISSION INCOME	7	27,645	26,303
FEE AND COMMISSION EXPENSE	8	(4,811)	(6,377)
NET FEE AND COMMISSION INCOME		22,834	19,926
NET FOREIGN EXCHANGE GAINS	9	10,199	7,600
OTHER OPERATING INCOME	10	5,160	2,217
NET OTHER OPERATING INCOME		15,359	9,817
REVENUE		98,769	86,275
EXPECTED CREDIT LOSS ON FINANCIAL ASSETS	17	(2,621)	(5,635)
OPERATING EXPENSES	11	(69,448)	(60,816)
PROFIT BEFORE INCOME TAX		26,700	19,824
INCOME TAX EXPENSE	13	(6,546)	(4,676)
PROFIT FOR THE YEAR		20,154	15,148
OTHER COMPREHENSIVE INCOME			
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		20,154	15,148
EARNINGS PER SHARE - BASIC AND DILUTED (SHS PER SHARE)	30	430.87	323.85

The notes set out on pages 21 to 68 form an integral part of these financial statements.

Statement of financial position

ASSETS	NOTES	2019 SHS M	2018 SHS M
CASH AND BALANCES WITH BANK OF UGANDA	14	120,203	104,712
DEPOSITS AND BALANCES DUE FROM OTHER BANKS	15	16,374	66,592
DEPOSITS DUE FROM GROUP COMPANIES	32 (A)	31,573	48,571
GOVERNMENT SECURITIES	16 (A)	170,423	175,652
LOANS AND ADVANCES TO CUSTOMERS	17 (A)	397,152	344,139
OTHER ASSETS	18	17,197	19,591
PROPERTY AND EQUIPMENT	19	29,666	13,072
OPERATING LEASE PREPAYMENTS	20	-	2,956
INTANGIBLE ASSETS	21	4,175	4,737
DEFERRED INCOME TAX ASSET	26	16,307	18,901
TOTAL ASSETS		803,070	798,923
LIABILITIES			
CUSTOMER DEPOSITS	22	578,563	568,867
DEPOSITS AND BALANCES DUE TO OTHER BANKING INSTITUTIONS	23	6,581	39,435
AMOUNTS DUE TO GROUP COMPANIES	32 (B)	57,575	58,403
OTHER BORROWINGS	24	608	884
INCOME TAX PAYABLE	13 (B)	1,469	1,531
OTHER LIABILITIES	25	34,751	17,951
TOTAL LIABILITIES		679,547	687,071
EQUITY			
SHARE CAPITAL	27 (A)	46,775	46,775
SHARE PREMIUM	27 (B)	23,614	23,614
PROPOSED DIVIDENDS	31	9,121	8,483
STATUTORY CREDIT RISK RESERVE		1,834	-
RETAINED EARNINGS		42,179	32,980
TOTAL EQUITY		123,523	111,852
TOTAL EQUITY AND LIABILITIES		803,070	798,923

The financial statements on pages 21 to 68 were approved for issue by the Board of Directors on 6 February 2020 and signed on its behalf by:

George William Egaddu
Chairman

Bernard R Magulu
Director

Arthur Isiko
Director

Rehmah Nabunya
Secretary

Statement of Changes in Equity

	NOTES	SHARE CAPITAL SHS M	SHARE CAPITAL SHS M	CREDIT RISK RESERVE SHS M	PROPOSED DIVIDENDS SHS M	RETAINED EARNINGS SHS M	TOTAL SHS M
YEAR ENDED 31 DECEMBER 2018							
AT 1 JANUARY 2018		46,775	23,614	-	8,337	28,405	107,131
INITIAL APPLICATION OF IFRS 9 NET OF TAX		-	-	-	-	(2,090)	(2,090)
RESTATED BALANCE AS AT 1 JANUARY 2018		46,775	23,614		8,337	26,315	105,041
COMPREHENSIVE INCOME:							
PROFIT FOR THE YEAR		-	-	-	-	15,148	15,148
OTHER COMPREHENSIVE INCOME		-	-	-	-	-	-
TOTAL COMPREHENSIVE INCOME		-	-	-	-	15,148	15,148
TRANSACTIONS WITH OWNERS:							
PROPOSED DIVIDENDS		-	-	-	8,483	(8,483)	-
DIVIDENDS PAID		-	-	-	(8,337)	-	(8,337)
AT 31 DECEMBER 2018	27	46,775	23,614	-	8,483	32,980	111,852
YEAR ENDED 31 DECEMBER 2019							
OPENING AT 1 JANUARY 2019	27	46,775	23,614	-	8,483	32,980	111,852
COMPREHENSIVE INCOME:							
PROFIT FOR THE YEAR		-	-	-	-	20,154	20,154
OTHER COMPREHENSIVE INCOME		-	-	-	-	-	-
TOTAL COMPREHENSIVE INCOME		-	-	-	-	20,154	20,154
TRANSACTIONS WITH OWNERS:							
STATUTORY CREDIT RISK RESERVE		-	-	1,834	-	(1,834)	-
PROPOSED DIVIDENDS	31	-	-	-	9,121	(9,121)	-
DIVIDENDS PAID		-	-	-	(8,483)	-	(8,483)
AT 31 DECEMBER 2019	27	46,775	23,614	1,834	9,121	42,179	123,523

Statement of Cash Flows

	NOTES	2019 SHS M	2018 SHS M
CASH FLOWS FROM OPERATING ACTIVITIES			
INTEREST RECEIPTS		71,994	67,976
INTEREST PAYMENTS		(11,505)	(11,946)
NET FEE AND COMMISSION RECEIPTS		22,834	19,926
OTHER INCOME RECEIVED		14,420	10,212
RECOVERIES FROM LOANS PREVIOUSLY WRITTEN OFF		4,039	864
PAYMENTS TO EMPLOYEES AND SUPPLIERS		(68,854)	(52,795)
INCOME TAX PAID	13 (B)	(4,014)	(3,863)
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		28,914	30,374
CHANGES IN OPERATING ASSETS AND LIABILITIES:			
- LOANS AND ADVANCES		(58,245)	(32,034)
- CASH RESERVE REQUIREMENT		1,067	(1,922)
- OTHER ASSETS		(9,063)	(6,900)
- CUSTOMER DEPOSITS		9,226	24,752
- DEPOSITS DUE TO OTHER BANKS		(32,854)	19,728
- AMOUNTS DUE TO GROUP COMPANIES		(883	(4,584)
- OTHER LIABILITIES		27,439	(6,750)
- GOVERNMENT SECURITIES		5,230	(12,410)
NET CASH GENERATED FROM OPERATING ACTIVITIES		(29,167)	10,254)
CASH FLOWS FROM INVESTING ACTIVITIES			
PURCHASE OF PROPERTY AND EQUIPMENT	19	(8,098)	(5,219)
PURCHASE OF INTANGIBLE ASSETS	21	(653)	3,650
PROCEEDS FROM SALE OF PROPERTY AND EQUIPMENT		-	-
NET CASH UTILIZED IN INVESTING ACTIVITIES		(8,751)	(1,569)
CASH FLOWS FROM FINANCING ACTIVITIES			
DIVIDENDS PAID		(8,483)	(8,337)
PAYMENT OF LEASE LIABILITIES		(3,976)	-
REPAYMENT OF BORROWED FUNDS		(280)	(347)
NET CASH UTILIZED IN FINANCING ACTIVITIES		(12,739)	(8,684)
NET INCREASE IN CASH AND CASH EQUIVALENTS		(50,658)	1
CASH AND CASH EQUIVALENTS AT START OF YEAR		196,803	196,873
CASH AND CASH EQUIVALENTS AT END OF YEAR	29	146,145	196,874

The notes set out on pages 21 to 68 form an integral part of these financial statements.

Notes

1. REPORTING ENTITY

BANK OF AFRICA – UGANDA Ltd (''the Bank'') is incorporated in Uganda under the Companies Act of Uganda as a limited liability company, and is domiciled in Uganda. The address of its registered office is:

BANK OF AFRICA – UGANDA Ltd

Plot 45, Jinja road

P. O. Box 2750

Kampala, Uganda

The Bank is a licensed financial institution under the Financial Institutions Act and is a member of the Uganda Bankers' Association. The Bank is engaged in the business of Commercial Banking and the provision of related Banking services.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1. Basis of preparation

The financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS), Companies Act of Uganda and Financial Institutions Act (FIA).

2.2. Statement of Compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of Uganda Cap (110) and Financial Institutions Act, 2004 as (amended 2016). The Bank presents its Statement of Financial Position broadly in order of liquidity.

2.3. Functional and presentation currency

These financial statements are presented in Uganda Shillings (Shs) which is the Bank's functional currency, rounded to the nearest million (M), except when otherwise indicated. The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below.

2.4. Use of judgments and estimates

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, revenues and expenses. The estimates and associated assumptions are based on historical experiences, the results of which form the basis of making the judgments about the carrying values and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities within the next financial year are addressed below.

a. Deferred income tax asset (Note 26)

The Bank recognised a deferred tax asset of Shs 16,485 million (2018: Shs 18,901 million) in respect of accumulated tax losses based on management's projections that sufficient taxable profits will be generated in future years against which the deferred tax asset will be utilised. The deferred tax has been maintained in the balance sheet with an assumption that the bank will remain profitable in future years based on the projected increase in revenue at a faster rate than the increase in costs.

b. Classification of financial instruments (Note 3e)

Financial assets are classified based on the business model within which the assets are held and based on whether the contractual terms of the financial assets are specifically for payment of principal and interest (SPPI) on the principal amount outstanding.

c. Impairment losses on financial instruments (Note 3a)

Determination of inputs into the Expected Credit Losses (ECL) measurement model, incorporation of forward-looking information, establishing the criteria for determining whether credit risk on a financial asset has increased significantly since initial recognition, selection of approval of the models used to measure ECL and assumptions used in estimating recoverable cash flows. These have been further illustrated under Note 3.

d. Fair value of financial instruments (Note 16b)

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. In these cases the fair values are estimated from observable data in respect of similar financial instruments or using models. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices.

To the extent practicable, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

2.5. Adoption of new and revised standards

i. New and amended standards adopted by the Bank

The following standards have been adopted by the Bank for the first time for the financial year beginning on or after 1 January 2019. The adoption of these new standards has not resulted in material changes to the banks accounting policies.

New amendments or interpretation effective for annual periods beginning on or after 1 January 2019 are summarized below:

NEW AMENDMENTS OR INTERPRETATION	EFFECTIVE DATE
• IFRS 16 Leases	1 January 2019
• IFRIC 23 Uncertainty over Income Tax Treatments	
• Prepayment Features with Negative Compensation (Amendments to IFRS 9)	
• Plan Amendment, Curtailment or Settlement (Amendment to IAS 19)	
• Long-term Interests in Associates and Joint Ventures (Amendment to IAS 28)	
• ANNUAL IMPROVEMENTS TO IFRS STANDARDS 2015-2017 CYCLE-VARIOUS S	

New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2019

At the date of authorization of financial statements of the Bank for the year ended 31 December 2019, the following Standard and Interpretations were in issue but not yet effective;

NEW STANDARD OR AMENDMENTS	Effective for annual periods beginning on or after
• Amendments to references to Conceptual Framework in IFRS Standards	1 January 2020
• Definition of a Business (Amendments to IFRS3)	
• Definition of Material (Amendments to IAS 1 and IAS 8)	
• Interest Rate Benchmark Reform (Amendments to IFRS9,IAS39 and IFRS7)	
• PLAN AMENDMENT, CURTAILMENT OR SETTLEMENT (AMENDMENT TO IA	
• IFRS 17 INSURANCE CONTRACTS	1 January 2021

All Standards and Interpretations will be adopted at their effective date (except for those Standards and Interpretations that are not applicable to the entity).

IAS 19, IFRS 17, are not applicable to the business of the entity and will therefore have no impact on future financial statements. The directors are of the opinion that the impact of the application of the remaining Standards and Interpretations will be as follows:

IFRS 16 Leases

The bank applied IFRS 16 using the modified retrospective approach under which the initial lease liability was measured as the discounted present value of the outstanding lease payments as at 1 January 2019 and the right-of-use asset measured in the amount of the lease liability adjusted for prepayments on the lease that existed just before 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated implying that it has been presented, as previously reported under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

• Definition of a lease

Previously, the Bank determined at contract inception whether an arrangement is or contains a lease under IFRIC 4 Determining Whether an Arrangement Contains a Lease. The Bank now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 2.6.

On transition to IFRS 16, the bank applied the standard to contracts that were previously identified as leases and for which the underlying asset value wasn't of low value.

• As a lessee

As a lessee, the Bank leases some branch and office premises, Automated Teller Machines (ATMs) and Information Communication Technology (ICT) equipment. The Bank previously classified these leases as operating leases under IAS 17 based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset of the Bank. Under IFRS 16, the Bank recognizes right-of-use assets and lease liabilities for leases of branch and office premises, ATMs and ICT equipment on-balance sheet.

Further, the Bank has not entered into any new leases during the year ended 31 December 2019.

For the leases of branches and office premises, the Bank has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's incremental borrowing rate as at 1 January 2019. The incremental borrowing rate represents the opportunity cost to the Bank for investing in these assets.

The right-of-use assets were measured at their carrying amount equal to the initial lease liability value. The Bank has a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Bank. Did not recognize right-of-use assets and liabilities for leases of low value assets. All lease arrangements where the individual underlying asset was in value less than USD5,000 excluded initial direct costs from measuring the right-of-use assets and liabilities at the date of initial application; and used hindsight when determining the lease term.

- Impact on Financial Statements

On transition to IFRS 16, the Bank recognized additional right-of-use assets and additional lease liabilities as summarized below.

IN MILLIONS OF SHS	1 JANUARY 2019
BUILDINGS - COST	8,802
OFFICE EQUIPMENT - COST	842
COMPUTER HARDWARE - COST	168
INITIAL LEASE LIABILITY	7,582

The right-of-use asset is depreciated on a straight line basis over the shorter of the lease term and the useful life of the asset. As a result of the additional assets on-balance sheet, the depreciation expense in the period attributable to the right-of-use asset is as below:

IN MILLIONS OF SHS	31 DECEMBER 2019
BUILDINGS	3,802
OFFICE EQUIPMENT	562
COMPUTER HARDWARE	47

When measuring lease liabilities for leases that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 15.5%.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities. Specifically, IFRIC 23 provides clarity on how to incorporate this uncertainty into the measurement of tax as reported in the financial statements.

IFRIC 23 does not introduce any new disclosures but reinforces the need to comply with existing disclosure requirements about:

- judgments made;
- assumptions and other estimates used; and
- the potential impact of uncertainties that are not reflected.

The new standard did not have significant impacts on the financial statements of the Bank.

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

The amendments clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9.

The amendment did is not have a significant impact on the financial statements of the Bank.

2.6. Summary of significant accounting policies

a. Foreign currency translation

i. Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates (the "functional currency"). The financial statements are presented in Uganda Shillings ("Shs") which is the Bank's functional and presentation currency, rounded off to the nearest million.

ii. Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of comprehensive income on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

b. Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets and liabilities. The Bank adopted the standard on 1 January 2018 resulting in a change in its accounting policies and adjustments to amounts previously recognised in the financial statements.

i. Classification and measurement

IFRS 9 introduced an approach to the classification of financial assets that reflects the business model. Debt instruments, including hybrid contracts, are measured at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) or amortized cost based on the nature of the cash flows of the assets and an entity's business model. These categories replace the previous IAS 39 classifications of FVTPL, available for sale (AFS), loans and receivables, and held-to-maturity. Equity instruments are measured at FVTPL, unless they are not held for trading purposes, in which case an irrevocable election can be made on initial recognition to measure them at FVOCI with no subsequent reclassification to profit or loss.

For financial liabilities, most of the pre-existing requirements for classification and measurement previously included in IAS 39 were carried forward unchanged into IFRS 9 other than the provisions relating to the recognition of changes in own credit risk for financial liabilities designated at fair value through profit or loss, as permitted by IFRS 9.

ii. Expected credit loss on financial assets

Changes between the new impairment model and the previous model

IFRS 9 introduced a new, single impairment model for financial assets that requires the recognition of expected credit losses (ECL) rather than incurred losses as applied under the IAS 39. Previously, impairment losses were recognized if, and only if, there was objective evidence of impairment as a result of one or more loss events that occurred after initial recognition of the asset and that loss event had a detrimental impact on the estimated future cash flows of the asset that could be reliably estimated. If there was no objective evidence of impairment for an individual financial asset, that financial asset was included in a group of assets with similar credit risk characteristics and collectively assessed for impairment losses incurred but not yet identified.

Under the current IFRS 9, ECLs are being recognized in profit or loss before a loss event has occurred, which could result in earlier recognition of credit losses compared to the current model.

Under IFRS 9, the ECL model, which is forward-looking, in addition requires that forecasts of future events and economic conditions be used when determining significant increases in credit risk and when measuring expected losses. Forward-looking macroeconomic factors such as unemployment rates, inflation rates, interest rates, exchange rates, domestic borrowing, credit to private sector and gross domestic product are incorporated into the risk parameters. Estimating forward-looking information requires significant judgment and consistency with the forward-looking information used by the Bank for other purposes, such as forecasting and budgeting.

Under IFRS 9, the same impairment model is applied to all financial assets, except for financial assets classified or designated as at FVTPL and equity securities designated as at FVOCI, which are not subject to impairment assessment. The financial instruments scoped for the expected credit loss impairment model includes amortized cost financial assets, debt securities classified as at FVOCI, and off balance sheet loan commitments and financial guarantees which were previously provided for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets (IAS 37).

IFRS 9 replaces the 'incurred loss model' with an 'expected credit loss model'. When measuring expected credit losses, the model recognises loss allowance depending on the stage in which the financial asset is;

iii. Hedge Accounting

IFRS 9 introduces a new general hedge accounting model that better aligns hedge accounting with risk management activities. However, the current hedge accounting requirements under IAS 39 will continue to be applied until the IASB finalizes its macro hedge accounting project. The IFRS 9 Hedge accounting requirements will not have any significant impact on the bank as the bank does not apply hedge accounting.

iv. Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off are still subject to enforcement activities in order to comply with The Bank's procedures for recovery of amounts due.

c. IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations.

The Bank initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Bank's fees and commission income from contracts with customers was not impacted by the adoption of IFRS 15.

d. Derivative financial instruments

Derivative financial instruments comprise forward foreign exchange contracts that are not designated as hedging instruments. The Bank agrees to buy or sell a specific quantity of foreign currency, usually on a specific future date at an agreed rate. Derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms.

e. Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within 'interest income' or 'interest expense' respectively in the statement of comprehensive income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest that was used to discount the future cash flows for the purpose of measuring the impairment loss.

f. Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised over the life of the loan. Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses – are recognised on completion of the underlying transaction.

Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place. Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognises revenue when it transfers control over a service to a customer.

g. Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are classified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to customers or placements with other banks, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

h. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

i. Property and equipment

Land and buildings comprise mainly of branches and offices. All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of these assets.

Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to 'operating expenses' during the period in which they are incurred.

and equipment (PPE) including intangible assets. It has however been noted that, computer hardware which encompasses assets such as servers, laptops, ATMs and desktop computers are in a practical sense being utilized for more than 3 years as opposed to the useful life above which would therefore imply that a more appropriate estimate be prescribed. Similarly, motor vehicles whose useful life is currently 4 years, are practically being used for. Effective January 2019 the Bank made changes in the estimated useful life of motor vehicles and Computer equipment:

BUILDINGS	SHORTER OF PERIOD OF LEASE OR 50 YEARS
MOTOR VEHICLES	5 YEARS (PREVIOUSLY 4 YEARS)
FIXTURES, FITTINGS AND EQUIPMENT	8 YEARS
OTHER COMPUTER EQUIPMENT	5 YEARS (PREVIOUSLY 3 YEARS)
LAPTOPS AND PERSONAL COMPUTERS	4 YEARS (PREVIOUSLY 3 YEARS)

The change above reduces the depreciation expense while increasing the net book value.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The Bank assesses at each balance sheet date whether there is any indication that any item of property and equipment is impaired. If any such indication exists, the Bank estimates the recoverable amount of the relevant assets. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These are included in "other income" in the statement of comprehensive income.

j. Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (five years).

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding five years).

k. Income tax

The income tax expense for the period comprises current and deferred income tax. Income tax is recognised in the Statement of comprehensive income except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Ugandan Income Tax Act. The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the balance sheet date.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the related deferred income tax liability is settled or the related deferred income tax asset is realised.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

l. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, including: cash and non-restricted balances with the Central Bank, treasury and other eligible bills, and amounts due from other banks. Cash and cash equivalents excludes the cash reserve requirement held with the Central Bank.

m. Employee benefits

i. Retirement benefit obligations:

The Bank operates a defined contribution retirement benefit scheme for all its permanent confirmed employees. The Bank and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme. A defined contribution plan is a retirement benefit plan under which the Bank pays fixed contributions into a separate entity.

The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The assets of all schemes are held in separate trustee administered funds, which are funded by contributions from both the Bank and the employees.

The Bank's contributions to the defined contribution schemes are charged to the statement of comprehensive income in the year in which they fall due.

ii. Other entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the statement of financial position date is recognised as an expense.

n. Customer deposits

Deposits from customers are measured at amortised cost using the effective interest rate method.

o. Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the Statement of Comprehensive Income over the period of the borrowings using the effective interest method.

p. Share capital

Ordinary shares are classified as 'share capital' in equity and measured at the fair value of consideration receivable without subsequent re-measurement. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

q. Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

r. Acceptances and letters of credit

Acceptances and letters of credit are accounted for as off-balance sheet transactions and disclosed as contingent liabilities.

s. Grants

Grants include assistance offered by government, government agencies and similar bodies whether local, national, or international in the form of transfers of resources in return for past, of future compliance with certain conditions relating to the operation of the Bank. Grants related to assets are those whose primary condition is that the Bank should purchase long term assets.

Grants are recognised when there is reasonable assurance that the Bank will comply with the conditions attached to the grant and that the grant will be received.

Grants awarded towards the purchase of assets are netted off against the total purchase price in arriving at the carrying value of the asset. The grant is then recognised as income through profit or loss over the life of the asset by way of a reduction in the depreciation charge of the asset.

3. Financial risk management

The Bank's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk. Those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Bank accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high-quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice. These policies are approved by the Board of Directors.

The Treasury department identifies, evaluates and hedges financial risks in close cooperation with the operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment.

a. Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the Bank by failing to pay amounts in full when due. Credit risk is the most important risk for the Bank's business: management therefore carefully manages the exposure to credit risk.

Credit exposures arise principally in lending and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. Credit risk management and control is centralised and reports regularly to the Board of Directors through the Board Credit Committee.

i. Credit risk measurement

Loans and advances (including commitments and guarantees):

The estimation of credit risk exposure is complex and requires the use of models as the value of a product varies with; changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

Expected Credit Loss (ECL)

The Expected Credit Loss is measured on either a 12 month or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit impaired. Expected credit losses are the discounted product of the probability of Default (PD), Exposure at Default (EAD),and Loss Given Default (LGD) defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation either over the next 12 months (12M PD) or over the remaining lifetime (Lifetime PD) of the obligation.

A financial instrument is in default if the borrower is more than 90 days past due on its contractual payments. Additionally, if the borrower meets unlikeliness to pay criteria which indicates the borrower is in significant financial difficulty.

- To enhance accuracy in establishing the portfolio of default, asset categories are classified into separate customer segments: Corporate, SME and Retail. These segments are further categorised according to the economic sector in which the underlying assets relates.

- A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments together with other qualitative factors.

- EAD is based on the amounts the Bank expects to be owed at the time of default over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).

- Loss Given Default (LGD) represents the expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD).

The ECL is determined by projecting the PD, LGD, and EAD for the future for the different customer segments. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month).

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12 month and lifetime EADs are determined based on the expected payment profile which varies by customer type.

Forward looking economic information is also included in determining the 12 month and Lifetime PD, EAD, and LGD. Regression and correlation analyses are carried out to establish the relationship of credit risk to some key economic fundamentals.

The assumptions underlying the ECL calculation; such as how the maturity profile of the PDs and how collateral values changes etc., are monitored and reviewed regularly.

Computation of Expected Credit Losses

ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument. The measurement of ECLs will be based primarily on the product of the instrument's probability of default (PD), loss given default (LGD), and exposure at default (EAD). The ECL model contains a three-stage approach that is based on the change in the credit quality of assets since initial recognition.

- Stage 1 – If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and a loss allowance that is measured, at each reporting date, at an amount equal to 12-month expected credit loss is recorded.

- Stage 2 – When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and a loss allowance that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to recognition of 12-month expected credit losses based on the Central Bank of Uganda and the Bank's policy on curing of loans.

- Stage 3 – When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to Stage 3, and an allowance equal to lifetime expected losses continues to be recorded or the financial asset is written off.

Interest income is calculated on the gross carrying amount of the financial assets in Stages 1 and 2 and on the net carrying amount of the financial assets in Stage 3.

Assessment of Significant Increase in Credit Risk

The determination of a significant increase in credit risk takes into account many different factors including a comparison of a financial instrument's credit risk or PD at the reporting date and the credit or PD at the date of initial recognition. The Bank has included relative and absolute thresholds in the definition of significant increase in credit risk and a backstop of 30 days past due. All financial instruments that are 30 days past due are migrated to Stage 2. Additionally, other determinants include: relative increase in absolute level of credit risk (PD), operating performance of borrower, breaches to covenants, changes to contractual terms e.g. granting concessions such as interest waivers and cash flow or liquidity issues.

Definition of Default and Credit Impaired Assets

The Bank defines a financial instrument as in default or credit impairment when it meets one or more of the following Criteria:

Quantitative – The Borrower is more than 90 days past due on its contractual payments; and

Qualitative – The Borrower meets the unlikeliness to pay criteria which indicates that the borrower is in significant financial difficulty. These instances include: The borrower is in long-term forbearance, the borrower is deceased, the borrower is insolvent, the borrower is in breach of financial covenants, an active market for that financial asset has disappeared because of financial difficulties, concessions have been made by the lender relating to borrower's financial difficulty, it is becoming probable that the borrower will enter bankruptcy and financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The Bank has developed models to support the quantification of the credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring credit risks. The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

For regulatory purposes however, and for internal monitoring of the quality of the loan portfolio, customers are segmented into five rating classes as shown on the Bank's internal ratings scale below:

BANK'S RATING	DESCRIPTION OF THE GRADE
1	STANDARD AND CURRENT
2	WATCH
3	SUBSTANDARD
4	DOUBTFUL
5	LOSS

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has been increased significantly since its initial recognition and the measurement of ECL. The Bank formulates three economic scenarios: a base case, which is a median scenario, and two other scenarios, one on the upside and the other on the downside. The Bank has identified and documented the key drivers of credit risk, using an analysis of historical data, has estimated relationships between macro-economic variables (exchange rates, inflation, GDP growth, interest rates) and Credit risk. The key driver of credit risk identified from this analysis of the Bank's financial assets is GDP growth.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. Determination of whether the assets credit risk has significantly increased is established by comparison of: (a) its remaining lifetime PD at reporting date based on modified terms with; (b) the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms. On the other hand, the original financial asset is derecognised if the cash flows are substantially different, then the contractual rights to the cash flows from the original financial asset are deemed to have expired.

iii. Risk limit control and mitigation policies

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are reviewed quarterly by the Board of Directors.

The exposure to any one borrower including banks is further restricted by sub-limits covering on- and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Some other specific control and mitigation measures are outlined below:

a. Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of collateral for funds advanced, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over communal and/or business assets such as premises, inventory and accounts receivable; and
- Charges over financial instruments such as fixed deposits, debt securities and equities.

The Bank secures all borrowings with acceptable collateral, except in limited cases where credit is offered on an unsecured basis.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

b. Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

iii. Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures relating to on-balance sheet assets are as follows:

	2019 SHS M	2018 SHS M
BALANCES WITH THE CENTRAL BANK (NOTE 14)	71,425	53,286
DEPOSITS AND BALANCES DUE FROM OTHER BANKING INSTITUTIONS (NOTE 15)	16,342	66,592
AMOUNTS DUE FROM GROUP COMPANIES (NOTE 32 (A))	31,605	48,571
LOANS AND ADVANCES TO CUSTOMERS (NOTE 17)	397,152	344,139
GOVERNMENT SECURITIES (NOTE 16 (A))	170,423	175,652
OTHER ASSETS (NOTE 18)	17,198	11,884
CREDIT RISK EXPOSURES RELATING TO OFF-BALANCE SHEET ITEMS (NOTE 33):		
- TRADE RELATED AND SELF-LIQUIDATING DOCUMENTARY CREDITS	30,819	23,098
- PERFORMANCE BONDS AND STANDBYS	153,667	102,721
- COMMITMENTS TO LEND	17,891	17,233
TOTAL EXPOSURE	906,522	843,176

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2019, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on carrying amounts as reported in the balance sheet.

As shown above, 44% of the total maximum exposure is derived from loans and advances to banks and customers (2018: 41%); 19% represents investments in debt securities (2018: 21%).

Loans and advances to customers, other than to companies or salaried individuals borrowing less than Shs 150 million and some structured SME products, are secured by collateral in the form of charges over land and buildings and/or plant and machinery and other assets, corporate and personal guarantees or assignment of contract proceeds.

Management is confident in its ability to continue to control and sustain acceptable exposure of credit risk to the Bank resulting from both its loan and advances portfolio and debt securities based on the following:

- the Bank exercises stringent controls over the granting of new loans
- 84% of the loans and advances portfolio are neither past due nor impaired
- 98% of the loans and advances portfolio are not impaired; and
- 47% of the loans and advances portfolio are backed by collateral.

iv. Credit quality analysis

	2019 SHS M	2018 SHS M
LOANS AND ADVANCES		
NEITHER PAST DUE NOR IMPAIRED	342,186	294,246
PAST DUE BUT NOT IMPAIRED	56,408	43,198
CREDIT IMPAIRED	8,490	17,202
GROSS	407,084	354,646
LESS: ALLOWANCE FOR IMPAIRMENT (NOTE 17 (B))	(9,932)	(10,507)
NET AMOUNT	397,152	344,139

Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank:

STANDARD	342,1866	294,246

Loans and advances past due but not impaired

Loans and advances less than 90 days past due are generally not considered impaired, unless other information is available to indicate the contrary. Loans and advances greater than 90 days are not considered impaired if there is sufficient collateral to cover the facility after taking into account costs of realising security and the effect of discounting. The following table sets out the overdue status of loans and advances to customers in Stages 1, 2 and 3:

2019	STAGE 1 SHS M	STAGE 2 SHS M	STAGE 3 SHS M	2019 SHS M
LOANS AND ADVANCES				
STANDARD AND CURRENT	342,186	-	-	342,186
PAST DUE UP TO 30 DAYS	49,990	-	202	50,192
PAST DUE 31 – 60 DAYS	-	5,117	-	5,117
PAST DUE 61 – 90 DAYS	16	1,284	-	1,300
PAST DUE OVER 90 DAYS	1	-	8,288	8,289
	392,193	6,401	8,490	407,084
LOSS ALLOWANCE	(3,981)	(923)	(5,028)	(9,932)
CARRYING AMOUNT	388,212	5,478	3,462	397,152

2018	STAGE 1 SHS M	STAGE 2 SHS M	STAGE 3 SHS M	2018 SHS M
LOANS AND ADVANCES				
STANDARD AND CURRENT	276,489	17,758	-	294,247
PAST DUE UP TO 30 DAYS	39,560	-	-	39,560
PAST DUE 31 – 60 DAYS	8,605	3,163	711	12,479
PAST DUE 61 – 90 DAYS	-	3,075	-	3,075
PAST DUE OVER 90 DAYS	-	-	5,285	5,285
	324,654	23,996	5,996	354,646
LOSS ALLOWANCE	(3,769)	(2,100)	(4,638)	(10,507)
CARRYING AMOUNT	320,885	21,896	1,358	344,139

Individually impaired:

Of the total gross amount of past due loans and advances, following amounts have been individually assessed as impaired:

	2019 SHS M	2018 SHS M
- CORPORATE	3	7,509
- SME	6,564	4,542
- RETAIL	1,923	5,151
	8,490	17,202
FAIR VALUE OF COLLATERAL HELD	3,834	1,526

Renegotiated loans

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria that, in the judgement of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans – in particular, customer finance loans. Renegotiated loans totalled Shs 8,797 million (2018: Shs 13,013 million).

Repossessed collateral

During 2019, the Bank did not re-possess any collateral held as security. The Bank's policy is to dispose of repossessed properties as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

Credit quality analysis of other financial assets

The following table sets out the information the credit quality of other financial assets measured at amortised cost.

2019	STAGE 1 SHS M	STAGE 2 SHS M	STAGE 3 SHS M	2019 SHS M
OFF BALANCE SHEET ITEMS				
TRADE RELATED CREDITS	16,402	356	-	16,758
PERFORMANCE BONDS	139,534	13,770	356	153,660
DOCUMENTARY REMITTANCES	14,062	-	-	14,062
COMMITMENTS TO LEND	17,877	14	-	17,891
	187,875	14,140	356	202,371
LOSS ALLOWANCE	(118)	(40)	(9)	(167)
CARRYING AMOUNT	187,757	14,100	347	202,204

2018	STAGE 1 SHS M	STAGE 2 SHS M	STAGE 3 SHS M	2018 SHS M
OFF BALANCE SHEET ITEMS				
TRADE RELATED CREDITS	13,857	-	-	13,857
PERFORMANCE BONDS	97,185	5,747	150	103,082
DOCUMENTARY REMITTANCES	9,414	-	-	9,414
COMMITMENTS TO LEND	17,288	-	-	17,288
	137,744	5,747	150	143,641
LOSS ALLOWANCE	(366)	(215)	(8)	(589)
CARRYING AMOUNT	137,378	5,532	142	143,052

2019	STAGE 1 SHS M	STAGE 2 SHS M	STAGE 3 SHS M	2019 SHS M
GOVERNMENT SECURITIES				
TREASURY BILLS	138,384	-	-	138,384
TREASURY BONDS	32,210	-	-	32,210
	170,629	-	-	170,629
LOSS ALLOWANCE	(171)	-	-	(171)
CARRYING AMOUNT	170,423	-	-	170,423

2018				2018
GOVERNMENT SECURITIES				
TREASURY BILLS	153,883	-	-	153,883
TREASURY BONDS	21,984	-	-	21,984
	175,867	-	-	175,867
LOSS ALLOWANCE	(215)	-	-	(215)
CARRYING AMOUNT	175,652	-	-	175,652

	STAGE 1 SHS M	STAGE 2 SHS M	STAGE 3 SHS M	2019 SHS M	2018 SHS M
BALANCES DUE FROM BANKS					
CENTRAL BANK	71,615	-	-	71,615	104,765
OTHER BANKING INSTITUTIONS	16,390	-	-	16,390	66,659
GROUP COMPANIES	31,604	-	-	31,604	48,620
	119,491	-	-	119,491	220,044
LOSS ALLOWANCE	(119)	-	-	(119)	(169)
CARRYING AMOUNT	119,372	-	-	119,372	219,875

b. Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities as they fall due and to replace funds when they are withdrawn.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, and calls on cash settled contingencies. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The Central Bank of Uganda requires that the Bank maintains a minimum cash reserve requirement. In addition, the Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The Treasury department monitors liquidity ratios on a daily basis.

Sources of liquidity are regularly reviewed by a separate team in the Treasury department to maintain a wide diversification by provider, product and term.

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the statement of financial position date and from financial assets by expected maturity dates.

AT 31 DECEMBER 2019	CARRYING AMOUNT SHS M	NOMINAL INFLOW/ OUTFLOW SHS M	UP TO 1 MONTHS SHS M	1-3 MONTHS SHS M	3-12 MONTHS SHS M	1-5 YEARS SHS M	OVER 5 YEARS SHS M
LIABILITIES							
CUSTOMER DEPOSITS	578,563	578,563	67,480	107,286	403,797	-	-
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	6,581	6,581	6,581	-	-	-	-
AMOUNTS DUE TO GROUP COMPANIES	57,575	57,575	17,726	-	39,849	-	-
OTHER BORROWED FUNDS	608	608	190	-	-	418	-
OTHER LIABILITIES	36,220	36,220	36,220	-	-	-	-
TOTAL LIABILITIES (CONTRACTUAL MATURITY DATES)	679,547	679,547	128,197	107,286	443,646	418	-
ASSETS							
CASH AND BANK BALANCES WITH CENTRAL BANK	120,203	120,257	120,203	-	-	-	-
DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS	16,342	16,407	16,342	-	-	-	-
AMOUNTS DUE FROM GROUP COMPANIES	31,605	31,605	31,605	-	-	-	-
DERIVATIVE ASSETS	-	-	-	-	-	-	-
LOANS AND ADVANCES TO CUSTOMERS	397,152	407,084	80,925	50,362	56,330	159,793	49,742
GOVERNMENT SECURITIES	170,423	170,423	5,130	32,964	100,100	32,229	-
PROPERTY AND EQUIPMENT	29,666	29,666	-	10	67	3,210	26,379
INTANGIBLE ASSETS	4,175	4,175	-	8	112	3,783	272
OTHER ASSETS	33,505	33,644	13,452	3,568	-	-	16,485
TOTAL ASSETS (EXPECTED MATURITY DATES)	803,070	813,261	267,657	86,912	156,609	199,015	92,878
ON-BALANCE SHEET MISMATCH	**123,524**	**133,714**	**139,460**	**(20,374)**	**(287,038)**	**198,597**	**92,878**
NET OFF-BALANCE SHEET MISMATCH	(202,203)	(202,370)	(29,350)	(40,424)	(61,978)	(35,215)	-
NET LIQUIDITY POSITION	**(78,679)**	**(68,296)**	**110,110**	**(60,798)**	**(349,016)**	**163,382**	**92,878**

AT 31 DECEMBER 2018	CARRYING AMOUNT SHS M	NOMINAL INFLOW/ OUTFLOW SHS M	UP TO 1 MONTHS SHS M	1-3 MONTHS SHS M	3-12 MONTHS SHS M	1-5 YEARS SHS M	OVER 5 YEARS SHS M
LIABILITIES							
CUSTOMER DEPOSITS	568,867	568,867	558,704	3,280	6,883	-	-
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	39,435	39,435	39,435	-	-	-	-
AMOUNTS DUE TO GROUP COMPANIES	58,403	58,403	16,725	-	41,678	-	-
OTHER BORROWED FUNDS	884	884	190	-	245	449	-
OTHER LIABILITIES	19,482	19,482	19,482	-	-	-	-
TOTAL LIABILITIES (CONTRACTUAL MATURITY DATES)	687,071	687,071	634,536	3,280	48,806	449	-
ASSETS							
CASH AND BANK BALANCES WITH CENTRAL BANK	104,712	104,712	104,712	-	-	-	-
DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS	66,592	66,659	66,659	-	-	-	-
AMOUNTS DUE FROM GROUP COMPANIES	48,571	48,523	48,523	-	-	-	-
DERIVATIVE ASSETS	-	37	-	-	-	-	-
LOANS AND ADVANCES TO CUSTOMERS	344,139	354,646	89,740	37,380	49,080	116,927	61,519
GOVERNMENT SECURITIES	175,652	176,597	11,976	63,714	84,032	16,875	-
PROPERTY AND EQUIPMENT	13,072	13,072	-	6	415	3,317	9,334
INTANGIBLE ASSETS	4,737	4,737	-	-	91	2,685	1,961
OTHER ASSETS	38,492	38,586	35,630	-	-	-	2,956
TOTAL ASSETS (EXPECTED MATURITY DATES)	795,967	807,569	357,240	101,100	133,618	139,804	75,770
ON-BALANCE SHEET MISMATCH	**108,896**	**120,498**	**(277,297)**	**97,820**	**84,812**	**139,355**	**75,770**
NET OFF-BALANCE SHEET MISMATCH	(143,052)	(143,642)	(27,879)	(27,552)	(64,132)	(24,079)	-
NET LIQUIDITY POSITION	**(34,156)**	**(23,144)**	**(305,176)**	**70,268**	**20,680**	**115,276**	**75,770**

c. Market risk

Market risk is the risk that changes in market prices, which include currency exchange rates and interest rates, will affect the fair value or future cash flows of a financial instrument. Market risk arises from open positions in interest rates, foreign currencies and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimising the return on risk. Overall responsibility for managing market risk rests with the Assets and Liabilities Management Committee (ALCO). The Treasury department is responsible for the development of detailed risk management policies (subject to review and approval by the ALCO) and for the day to day implementation of those policies.

Currency risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2019 and 2018. Included in the table are the Bank's financial instruments, categorised by foreign currency.

	USD SHS M	GBP SHS M	EURO SHS M	OTHER SHS M	TOTAL SHS M
AT 31 DECEMBER 2019					
ASSETS					
CASH AND BALANCES WITH CENTRAL BANK	15,639	3,526	2,747	41	21,953
BALANCES DUE FROM BANKING INSTITUTIONS	10,026	1,761	4,362	258	16,407
AMOUNTS DUE FROM GROUP COMPANIES	15,156	72	-	10	15,238
LOANS AND ADVANCES	187,997	-	153	-	188,150
OTHER FINANCIAL ASSETS	161	161	423	-	745
TOTAL ASSETS	228,979	5,520	7,685	309	242,493
LIABILITIES					
CUSTOMER DEPOSITS	172,528	1,742	18,902	58	193,230
BALANCES DUE TO BANKING INSTITUTIONS	6,221	-	-	-	6,221
AMOUNTS DUE TO GROUP COMPANIES	57,434	1	-	2	57,437
OTHER LIABILITIES	12,934	-	-	-	12,934
OTHER FINANCIAL LIABILITIES	-	-	418	-	418
TOTAL LIABILITIES	249,117	1,743	19,320	60	270,240
NET ON-BALANCE SHEET POSITION	(20,138)	3,777	(11,635)	249	(27,747)
NET OFF-BALANCE SHEET POSITION	(53,287)	-	(5,542)	(2,682)	(61,511)
OVERALL OPEN POSITION	(73,425)	3,777	(17,177)	(2,433)	(89,258)
AT 31 DECEMBER 2019	(73,425)	3,777	(17,177)	(2,433)	(89,258)

At 31 December 2019, if the functional currency had reasonably strengthened/ weakened by a reasonable change of 1% against the foreign currencies with all other variables held constant, the pre-tax profit for the year would have been Shs 53 million (2018: Shs 68 million) higher/ lower, mainly as a result of foreign exchange gains/losses on translation of foreign currency denominated financial assets and liabilities. Further analysis of this sensitivity has been illustrated below.

	2019 SHS M	2018 SHS M
EFFECT ON PROFIT BEFORE TAX PER CURRENCY (+/-)		
USD	36	70
GBP	1	0.9
EUR	9	2.7
OTHERS	6	1

Interest rate risk

The Bank has exposure to the effects of fluctuations in market interest rates which impacts both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored monthly. The bank is managing interest rate risk by gap analysis.

Gap Analysis

Under this, interest sensitive assets and liabilities are classified into various time bands according to their maturity in the case of fixed interest rates, and residual maturity towards next pricing date in the case of floating exchange rates. The size of the gap in a given time band is analysed to study the interest rate exposure and the possible effects on the Bank's earnings.

In order to evaluate the earnings exposure, interest Rate Sensitive Assets (RSA) in each time band are netted off against the interest Rate Sensitive Liabilities (RSL) to produce a re-pricing gap for that time band. A positive gap indicates that the Bank has more RSA and RSL, a positive of asset sensitive gap means that an increase in market interest rates could cause an increase in the net interest margin and vice versa. Conversely, a negative or liability sensitive gap implies that the Bank's net interest margin could decline as a result of increase in market rates and vice versa.

At 31 December 2019, if the interest rates on interest bearing assets and liabilities had been 100 basis points higher/ lower with all other variables held constant, the pre-tax loss for the year would have been Shs 2,425 million (2018: Shs 445 million) higher/ lower.

The table below summarises the Bank's exposure to interest rate risk. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

AT 31 DECEMBER 2019	UP TO 1 MONTH SHS M	1-3 MONTHS SHS M	3-12 MONTHS SHS M	OVER 1 YEAR SHS M	NON-INTEREST BEARING SHS M	TOTAL SHS M
ASSETS						
CASH AND BANK BALANCES WITH CENTRAL BANK	30,007	-	-	-	90,196	120,203
DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS	-	-	-	-	16,374	16,374
AMOUNTS DUE FROM GROUP COMPANIES	8,201	-	14,856	-	8,516	31,573
DERIVATIVE ASSETS	-	-	-	-	-	-
LOANS AND ADVANCES TO CUSTOMERS	80,924	50,361	56,330	209,537	-	397,152
GOVERNMENT SECURITIES	5,130	32,964	100,100	32,229	-	170,423
PROPERTY AND EQUIPMENT	-	-	-	-	26,757	26,757
OPERATING LEASE PREPAYMENT	-	-	-	-	2,909	2,909
INTANGIBLE ASSETS	-	-	-	-	4,175	4,175
OTHER ASSETS	-	-	-	-	33,505	33,505
TOTAL ASSETS	124,262	83,325	171,286	241,766	182,432	803,070
LIABILITIES						
CUSTOMER DEPOSITS	42,885	69,194	103,552	105,670	257,262	578,563
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	-	-	-	-	6,581	6,581
AMOUNTS DUE TO GROUP COMPANIES	16,561	-	39,849	-	1,165	57,575
OTHER BORROWED FUNDS	-	-	-	418	190	608
OTHER LIABILITIES	-	-	-	-	36,220	36,220
EQUITY	-	-	-	-	123,559	123,523
TOTAL LIABILITIES	59,446	69,194	143,401	106,088	424,977	803,070
INTEREST RE-PRICING GAP	64,816	14,131	27,885	135,678	(242,545)	-
RE-PRICING GAP AT 31 DECEMBER 2018	(162,284)	134,263	71,956	154,592	(198,527)	-

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

d. Fair values of financial assets and liabilities

The fair value of held-to-maturity investment securities and other financial assets and liabilities approximate the respective carrying amounts, due to the generally short periods to contractual re-pricing or maturity dates as set out above. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that the directors expect would be available to the Bank at the statement of financial position date.

Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable on unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchanges traded derivatives like futures.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). Sources of input parameters include LIBOR yield curve.
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. The Bank considers relevant and observable market prices in its valuations where possible.

As at 31 December 2019 there were no financial assets or liabilities held at fair value through profit or loss or other comprehensive income (2018: Nil).

The table below shows items not measured at fair value for which fair value is disclosed:

	LEVEL 1 SHS M	LEVEL 2 SHS M	LEVEL 3 SHS M	TOTAL SHS M
31 DECEMBER 2019				
FINANCIAL ASSETS				
DEPOSITS AND BALANCES DUE FROM OTHER BANKS	-	16,374	-	16,374
DEPOSITS DUE FROM GROUP COMPANIES	-	31,573	-	31,573
GOVERNMENT SECURITIES	-	170,423	-	170,423
LOANS AND ADVANCES TO CUSTOMERS	-	397,152	-	397,152
OTHER ASSETS	-	17,198	-	17,198
TOTAL ASSETS	-	632,720	-	632,720
FINANCIAL LIABILITIES				
CUSTOMER DEPOSITS	-	578,653	-	578,653
BALANCES DUE TO OTHER BANKING INSTITUTIONS	-	6,581	-	6,581
AMOUNTS DUE TO GROUP COMPANIES	-	57,575	-	57,575
OTHER BORROWINGS	-	608	-	608
OTHER LIABILITIES	-	36,220	-	36,220
TOTAL LIABILITIES	-	679,637	-	679,637
31 DECEMBER 2018				
FINANCIAL ASSETS				
DEPOSITS AND BALANCES DUE FROM OTHER BANKS	-	66,592	-	66,592
DEPOSITS DUE FROM GROUP COMPANIES	-	48,571	-	48,571
GOVERNMENT SECURITIES	-	175,652	-	175,652
LOANS AND ADVANCES TO CUSTOMERS	-	344,139	-	344,139
OTHER ASSETS	-	11,884	-	11,884
TOTAL ASSETS	-	646,838	-	646,838
FINANCIAL LIABILITIES				
CUSTOMER DEPOSITS	-	568,867	-	568,867
BALANCES DUE TO OTHER BANKING INSTITUTIONS	-	39,435	-	39,435
AMOUNTS DUE TO GROUP COMPANIES	-	58,403	-	58,403
OTHER BORROWINGS	-	884	-	884
OTHER LIABILITIES	-	19,482	-	19,482
TOTAL LIABILITIES	-	687,071	-	687,071

There were no movements between levels 1 and 2 and no financial instruments in level 3.

The unobservable valuation inputs used to assess financial assets and liabilities not fair valued but for which fair value is reported include risk-free rate, risk premiums, liquidity spreads, credit risk, timing of settlement, service costs and pre-payment.

e. Financial instruments by category

i. Classification of Financial assets and Financial liabilities

The following table provides a reconciliation between the line items in the statement of financial position and the categories of financial instruments:

	NOTE	DESIGNATED AS FVTPL SHS M	AMORTISED COST SHS M	TOTAL CARRYING AMOUNT SHS M
31 DECEMBER 2019				
FINANCIAL ASSETS				
CASH AND BALANCES WITH CENTRAL BANK	14	-	120,203	120,203
PLACEMENTS WITH OTHER BANKS	15	-	16,342	16,342
AMOUNTS DUE FROM GROUP COMPANIES	32 (A)	-	31,573	31,573
LOANS AND ADVANCES TO CUSTOMERS	17 (A)	-	397,152	397,152
INVESTMENT SECURITIES:				
– HELD TO MATURITY	16 (A)	-	170,423	170,423
OTHER ASSETS	18	-	33,505	33,505
TOTAL		-	769,198	769,198
FINANCIAL LIABILITIES				
CUSTOMER DEPOSITS	22	-	578,563	578,563
DEPOSITS FROM OTHER BANKS	23	-	6,581	6,581
AMOUNTS DUE TO GROUP COMPANIES	32 (B)	-	57,575	57,575
OTHER LIABILITIES	25	-	36,220	36,220
OTHER BORROWED FUNDS	24	-	608	608
TOTAL		-	679,547	679,547
31 DECEMBER 2018				
FINANCIAL ASSETS				
CASH AND BALANCES WITH CENTRAL BANK	14	-	104,712	104,712
PLACEMENTS WITH OTHER BANKS	15	-	66,592	66,592
AMOUNTS DUE FROM GROUP COMPANIES	32 (A)	-	48,571	48,571
LOANS AND ADVANCES TO CUSTOMERS	17 (A)	-	344,139	344,139
INVESTMENT SECURITIES:				
– HELD TO MATURITY	16 (A		175,652	175,652
OTHER ASSETS	18	-	18,475	18,475
TOTAL		-	758,141	758,141

	NOTE	AT FAIR VALUE THROUGH PROFIT OR LOSS SHS M	AT AMORTISED COST SHS M	TOTAL CARRYING AMOUNT SHS M
AT 31 DECEMBER 2018				
FINANCIAL LIABILITIES				
CUSTOMER DEPOSITS	22	-	568,867	568,867
DEPOSITS FROM OTHER BANKS	23	-	39,435	39,435
AMOUNTS DUE TO GROUP COMPANIES	32 (B)	-	58,403	58,403
OTHER LIABILITIES	25	-	19,482	19,482
OTHER BORROWED FUNDS	24	-	884	884
TOTAL		-	687,071	687,071

f. Capital management

The Bank monitors the adequacy of its capital using ratios established by Bank of Uganda. These ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets, off balance sheet commitments and market risk positions at weighted amounts to reflect their relative risk.

The market risk approach covers the general market risk and the risk of open positions in currencies and debt, equity securities. Assets are weighted according the amount of capital deemed necessary to support them. Four categories of risk weights (0%, 20%, 50% and 100%) are applied, for example cash and money market instruments have zero risk weighting which means that no capital is required to support the holding of these assets.

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the balance sheet, are:

- to comply with the capital requirements set by the Central Bank;
- to safeguard the Bank's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to maintain a strong capital base to support the development of its business.

Capital adequacy and use of regulatory capital are monitored regularly by management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Central Bank for supervisory purposes. The required information is filed with the Central Bank on a quarterly basis.

The Central Bank requires each bank to:

a) hold the minimum level of capital unimpaired by losses of Shs 25 billion;

b) maintain a core capital ratio of not less than 10% of total risk adjusted assets plus risk adjusted off balance sheet items as determined by the Central Bank by statutory instrument;

c) maintain a total (core plus supplementary) capital ratio of not less than 12% of total risk adjusted assets plus risk adjusted off balance sheet items as determined by the Central Bank by statutory instrument;

The Bank's core capital (Tier 1 capital) is comprised of share capital, share premium, plus retained earnings less any deductions determined by the Central Bank.

The Bank's supplementary (Tier 2 capital) is comprised of revaluation reserves, unencumbered general provisions for losses, regulatory reserves, subordinated debt and hybrid debt.

The table that follows summarises the composition of regulatory capital and the ratios of the Bank determined in accordance with the Central Bank's regulatory returns form BS 100A and BS100B:

	2019 SHS M	2018 SHS M
CORE CAPITAL (TIER 1)		
SHARE CAPITAL	46,775	46,775
SHARE PREMIUM	23,614	23,614
RETAINED EARNINGS	42,179	32,980
LESS:		
UNREALISED FOREIGN EXCHANGE GAINS	(28)	(2,101)
INTANGIBLE ASSETS	(4,175)	(4,737)
DEFERRED INCOME TAX ASSET	(16,307)	(18,901)
TOTAL CORE CAPITAL	92,058	77,630
SUPPLEMENTARY CAPITAL (TIER 2)		
GENERAL PROVISIONS PER FIA	4,901	3,739
SUBORDINATED DEBT	-	-
TIER 2 CAPITAL	**4,901**	**3,739**
TOTAL CAPITAL (TIER 1 AND TIER 2)	96,959	81,369

The risk weighted assets are measured by means of a hierarchy of four risk categories classified according to the nature of the asset and reflecting an estimate of the credit risk associated with each asset and counterparty, taking into account any eligible collateral or guarantees.

A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses. The table below summarises the composition of the risk weighted assets of the Bank at 31 December 2019:

	Balance sheet amount			Risk weighted amounts	
	2019 SHS M	2018 SHS M	RISK WEIGHT %	2019 SHS M	2018 SHS M
BALANCE SHEET ASSETS (NET OF PROVISIONS)					
CASH AND BALANCES WITH BANK OF UGANDA	120,203	104,765	0%	-	-
DUE FROM COMMERCIAL BANKS IN UGANDA	-	7,475	20%	-	1,495
AMOUNTS DUE FROM OTHER BANKS:					
RATED AAA TO AA (-)	-	-	20%	-	-
RATED A (+) TO A (-)	16,374	42,686	50%	8,187	21,343
RATED A (-) AND NON-RATED	-	16,547	100%	-	16,547
AMOUNTS DUE FROM GROUP COMPANIES	31,573	48,571	100%	31,573	48,571
LOANS AND ADVANCES TO CUSTOMERS	397,152	331,907	100%	397,152	331,907
INVESTMENT SECURITIES HELD TO MATURITY	170,423	175,866	0%	-	-
PROPERTY AND EQUIPMENT	26,757	13,072	100%	26,757	13,072
OPERATING LEASE PREPAYMENTS	2,909	2,956	100%	2,909	2,956
INTANGIBLE ASSETS (OFFSET AGAINST CORE CAPITAL)	4,175	4,737	0%	-	-
DEFERRED TAX ASSETS (OFFSET AGAINST CORE CAPITAL)	16,307	18,901	0%	-	-
OTHER ASSETS	17,198	19,591	100%	17,198	19,591
ON BALANCE SHEET ASSETS	**803,070**	**787,074**		**483,776**	**455,482**
OFF-BALANCE SHEET POSITIONS					
CONTINGENTS SECURED BY CASH COLLATERAL	47,590	16,256	0%	-	-
GUARANTEES AND ACCEPTANCES	-	-	100%	-	-
PERFORMANCE BONDS AND STANDBYS	110,533	87,683	50%	55,267	43,842
TRADE RELATED AND SELF-LIQUIDATING CREDITS	27,117	22,413	20%	5,423	4,483
COMMITMENTS TO LEND	17,137	17,289	50%	8,569	8,645
OFF BALANCE SHEET ITEMS	202,377	143,641		69,259	56,970
TOTAL RISK-WEIGHTED ASSETS	1,005,447	930,715		553,035	512,452

	Balance sheet amount			Risk weighted amounts	
	2019 SHS M	2018 SHS M	RISK WEIGHT %	2019 SHS M	2018 SHS M
COUNTER PARTY CREDIT (CCR) EXPOSURE					
GOVERNMENT AND BANK OF UGANDA	-	-	0%	-	-
RATED AAA TO AA (-) AND BANKS IN UGANDA	-	-	20%	-	-
RATED A (+) TO A (-)	-	-	50%	-	-
RATED A (-) AND NON-RATED	-	-	100%	-	-
TOTAL RISK WEIGHTED CCR EXPOSURES	-	-		-	-
MARKET RISK CHARGE					
FOREIGN EXCHANGE RISK	5,038	-	100%	5,038	7,339
INTEREST RATE RISK	-	-		-	-
TOTAL MIN. CAPITAL REQUIRED FOR MARKET RISK	5,038	-		5,038	7,339
TOTAL RISK WEIGHTED ITEMS	1,010,521	938,054		558,073	519,791

	Balance sheet amount			Risk weighted amounts	
	2019 SHS M	2018 SHS M	RISK WEIGHT %	2019 SHS M	2018 SHS M
MARKET RISK CHARGE					
FOREIGN EXCHANGE RISK	5,038	-	100%	5,038	7,339
INTEREST RATE RISK	-	-		-	-
TOTAL MIN. CAPITAL REQUIRED FOR MARKET RISK	5,038	-		5,038	7,339
TOTAL RISK WEIGHTED ITEMS	1,010,521	938,054		558,073	519,791

	2019 SHS M	2018 SHS M
CAPITAL RATIOS PER FINANCIAL INSTITUTIONS ACT (FIA)		
CORE CAPITAL	16.5%	14.9%
TOTAL CAPITAL	17.4%	15.6%
REGULATORY MINIMUM RATIO CAPITAL REQUIREMENT:		
CORE CAPITAL	10.0%	10.0%
TOTAL CAPITAL	12.0%	12.0%

5. Interest income

	2019 SHS M	2018 SHS M
LOANS AND ADVANCES	51,771	45,911
GOVERNMENT SECURITIES	18,152	20,180
SHORT TERM PLACEMENTS	2,687	2,185
TOTAL	72,610	68,276

6. Interest expense

	2019 SHS M	2018 SHS M
CUSTOMER DEPOSITS	8,969	8,287
DEPOSITS DUE TO BANKING INSTITUTIONS	3,016	2,867
BORROWED FUNDS	49	64
OTHER	-	526
TOTAL	12,034	11,744

All related interest bearing liabilities were measured at amortised cost.

7. Fee and commission income

a. The breakdown below illustrates fees by type

	2019 SHS M	2018 SHS M
OPERATIONAL FEES AND COMMISSION INCOME	20,137	19,592
CREDIT RELATED FEES AND COMMISSION INCOME	7,508	6,711
TOTAL	27,645	26,303

b. The breakdown below illustrates the nature and timing of the satisfaction of performance obligations

	2019 SHS M	2018 SHS M
TRANSACTIONAL FEES AND COMMISSION INCOME	20,106	21,272
ACCOUNT SERVICES	7,539	5,031
TOTAL	27,645	26,303

8. Fee and commission expense

	2019 SHS M	2018 SHS M
TRANSACTIONAL FEES AND COMMISSION EXPENSE	4,801	6,367
CREDIT RELATED FEES AND COMMISSION EXPENSE	10	10
TOTAL	4,811	6,377

All fee and commission income and expense arise from financial assets and financial liabilities that are not measured at fair value through profit and loss.

9. Foreign exchange income

	2019 SHS M	2018 SHS M
REALISED FOREIGN EXCHANGE GAINS	10,583	8,718
UNREALISED FOREIGN EXCHANGE (LOSSES)	(384)	(1,118)
TOTAL	10,199	7,600

10. Other operating income

	2019 SHS M	2018 SHS M
RECOVERIES FROM LOANS PREVIOUSLY WRITTEN OFF AS UNCOLLECTIBLE	4,039	864
MISCELLANEOUS INCOME	1,121	1,353
TOTAL	5,160	2,217

11. Operating expenses

	2019 SHS M	2018 SHS M
EMPLOYEE BENEFITS EXPENSE (NOTE 12)	39,149	30,375
DEPRECIATION OF PROPERTY AND EQUIPMENT (NOTE 19)	5,915	2,716
AMORTISATION OF INTANGIBLE ASSETS (NOTE 21)	1,176	1,394
AUDITOR'S REMUNERATION	170	259
LEGAL AND PROFESSIONAL FEES	426	643
MARKETING AND ADVERTISING	1,587	1,428
TRAVEL EXPENSES	1,021	1,541
EXCISE DUTY ON FEES	710	1,624
OCCUPANCY AND PREMISES COSTS	1,169	7,122
COMMUNICATION EXPENSES	2,262	2,825
REPAIRS AND MAINTENANCE	7,155	4,649
DEPOSIT PROTECTION SCHEME CONTRIBUTION	1,165	1,028
PRINTING AND STATIONERY	790	788
OTHER OPERATING EXPENSES	6,753	4,424
TOTAL	69,448	60,816

12. Employee benefits expense

	2019 SHS M	2018 SHS M
SALARIES AND WAGES	30,396	23,896
NSSF CONTRIBUTIONS	2,195	2,061
DEFINED CONTRIBUTION SCHEME CONTRIBUTIONS	1,553	1,401
OTHER STAFF COSTS	5,005	3,017
TOTAL	39,149	30,375

13. Taxation

a. Income tax expense

	2019 SHS M	2018 SHS M
CURRENT INCOME TAX CHARGE	3,952	4,261
DEFERRED INCOME TAX EXPENSES (NOTE 26)	2,594	415
TOTAL	6,546	4,676

The corporation tax rate is set at 30% of the profits for the year as adjusted for tax purposes in accordance with the Income Tax Act Cap 340.

The tax charge on the company's profit before tax differs from the theoretical amount that would arise using the basic rate as follows.

	2019 SHS M	2018 SHS M
PROFIT BEFORE INCOME TAX	26,700	19,825
TAX CALCULATED AT THE STATUTORY INCOME TAX RATE OF 30% (2018: 30%)	8,010	5,947
TAX EFFECT OF:		
INCOME NOT SUBJECT TO TAX	(5,811)	(6,642)
TAX EFFECT OF NON-DEDUCTIBLE ITEMS	395	910
FINAL TAX ON GOVERNMENT SECURITIES	3,952	4,261
PRIOR YEAR DEFERRED INCOME TAX OVER/UNDER PROVISION	-	200
INCOME TAX EXPENSE	**6,546**	**4,676**
THE EFFECTIVE TAX RATE	**24.5%**	**23.7%**

b. Tax payable was as follows:

	2019 SHS M	2018 SHS M
AT START OF YEAR	(1,531)	(1,133)
CURRENT INCOME TAX CHARGE	(3,952)	(4,261)
INCOME TAX PAID	4,014	3,863
AT END OF YEAR	**(1,469)**	**(1,531)**

14. Cash and balances with BANK OF UGANDA

	2019 SHS M	2018 SHS M
CASH ON HAND	48,795	51,426
OTHER MONEY-MARKET PLACEMENTS WITH BANK OF UGANDA	30,007	-
BALANCES WITH BANK OF UGANDA	19,467	30,267
CASH RESERVE REQUIREMENT (FOR FURTHER DETAILS REFER TO NOTE 29)	22,005	23,072
LESS: EXPECTED CREDIT LOSS ALLOWANCE	(71)	(53)
TOTAL	120,203	104,712

Refer to Note 17 (b) (ii) for the movement in ECL provision.

15. Deposits and balances due from other banking institutions

	2019 SHS M	2018 SHS M
BALANCES DUE FROM OTHER BANKING INSTITUTIONS – OUTSIDE UGANDA	16,374	48,149
DEPOSITS WITH OTHER BANKING INSTITUTIONS – INSIDE UGANDA	-	18,559
LESS: IMPAIRMENT LOSS ALLOWANCE	-	(116)
TOTAL	16,374	66,592

Refer to Note 17 (b) (ii) for the movement in provision.

The weighted average effective interest rate on deposits and balances due from other banking institutions was 4.5% (2018: 4.6 %).

16. Government securities and derivatives

a. Held to maturity investments – at amortised cost

	2019 SHS M	2018 SHS M
TREASURY BILLS		
FACE VALUE: MATURING AFTER 90 DAYS OF THE DATE OF ACQUISITION	145,827	159,799
MATURING WITHIN 90 DAYS OF THE DATE OF ACQUISITION	-	-
LESS: UNEARNED INTEREST	(7,443)	(5,917)
IMPAIRMENT LOSS ALLOWANCE	(139)	(153)
	138,245	153,729
TREASURY BONDS		
FACE VALUE	42,435	29,599
LESS: UNEARNED DISCOUNT	(10,225)	(7,615)
IMPAIRMENT LOSS ALLOWANCE	(32)	(61)
	32,178	21,923
GOVERNMENT SECURITIES - AT AMORTISED COST	**170,423**	**175,652**

Refer to Note 17 (b) (ii) for the movement in provision.

The weighted average effective interest rate on treasury bills and bonds was 12.7% (2018: 12.7%).

All government securities are held to maturity and as such the Bank does not hold any available for sale Investments.

b. Derivatives at fair value through profit or loss

Derivative Financial Instruments comprise forward foreign exchange contracts that are not designated as hedging instruments. The derivative instruments held become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which the instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The derivatives held by the Bank are classified as financial assets at fair value through the profit or loss. There were no derivative financial instruments held by the Bank at year end.

17. Loans and advances to customers and other financial instruments

a. Analysis of loan advances to customers by category:

	2019 SHS M	2018 SHS M
TERM LOANS	364,651	308,083
OVERDRAFTS	42,433	46,563
GROSS LOANS AND ADVANCES	407,084	354,646
LESS: EXPECTED CREDIT LOSS ON LOANS AND ADVANCES		
STAGE 1	(3,981)	(3,769)
STAGE 2	(923)	(2,100)
STAGE 3	(5,028)	(4,638)
	(9,932)	(10,507)
TOTAL	397,152	344,139

b. Movements in provisions for impairment are as follows:

	2019 SHS M	2018 SHS M
BALANCES WITH BANKS	(50)	8
GOVERNMENT SECURITIES	(44)	52
LOANS AND ADVANCES TO CUSTOMERS (NOTE 17 (A))	3,092	6,557
OTHER ASSETS	45	(1)
OFF BALANCE SHEET ITEMS	(422)	(981)
TOTAL	2,621	5,635

IMPAIRMENT LOSSES CHARGED TO PROFIT OR LOSS	31 DECEMBER 2018 SHS M	ADDITIONAL PROVISIONS SHS M	AMOUNTS RECOVERED SHS M	WRITTEN OFF SHS M	31 DECEMBER 2019 SHS M
BALANCES WITH BANKS	169	(50)	-	-	119
GOVERNMENT SECURITIES	215	(44)	-	-	171
LOANS AND ADVANCES TO CUSTOMERS	10,507	6,138	(3,046)	(3,667)	9,932
OTHER ASSETS	94	-	45	-	139
OFF BALANCE SHEET ITEMS	589	-	(422)	-	167
TOTAL	11,574	6,044	(3,423)	(3,667)	10,528

c. Regulatory reserve (Analysis as per Bank of Uganda guidelines)

	2019 SHS M	2018 SHS M
IMPAIRMENT AS PER IFRS	9,932	10,507
IMPAIRMENT AS PER FIA		
SPECIFIC PROVISIONS	6,865	5,715
GENERAL PROVISIONS	4,901	3,739
TOTAL REGULATORY PROVISIONS	11,766	9,454
REGULATORY RESERVE		
AT 1 JANUARY	**-**	**-**
TRANSFER TO THE REGULATORY RESERVE	1,834	-
AT 31 DECEMBER	**1,834**	**-**

d. Sectoral analysis – loans and advances

	2019 SHS M	2018 SHS M
AGRICULTURE	22,303	31,324
MANUFACTURING	46,703	49,991
TRADE AND COMMERCE	87,702	72,973
FINANCIAL SERVICES	19,040	5,675
TRANSPORT AND UTILITIES	19,297	18,224
BUILDING AND CONSTRUCTION	73,550	76,125
INDIVIDUALS	80,850	57,769
OTHER	57,639	42,565
TOTAL	407,084	354,646

18. Other assets

	2019 SHS M	2018 SHS M
ACCOUNTS RECEIVABLE	993	519
ITEMS IN TRANSIT	10,065	11,159
OTHER	264	299
SUB-TOTAL	11,322	11,977
LESS: EXPECTED CREDIT LOSS ALLOWANCE	(139)	(94)
STATIONERY STOCK	340	325
OTHER PREPAYMENTS	5,675	7,383
TOTAL	17,198	19,591

Refer to Note 17(b) (ii) for the movement in provision. The carrying amounts of other assets approximate to fair values.

19. Property and equipment

	LAND & BUILDINGS SHS M	MOTOR VEHICLES SHS M	FIXTURES, FITTINGS & EQUIPMENT SHS M	WORK IN PROGRESS SHS M	TOTAL SHS M
COST					
AT 1 JANUARY 2018	3,470	2,803	27,610	177	34,060
ADDITIONS	-	-	-	1,218	1,218
TRANSFERS FROM WIP	-	-	988	(988)	-
RECLASSIFICATION TO INTANGIBLE ASSETS	-	-	-	3,998	3,998
AT 31 DECEMBER 2018	3,470	2,803	28,598	4,405	39,276
ADDITIONS	6,004	-	1,518	2,215	9,737
INITIAL RECOGNITION OF IFRS 16 (ROU)	8,802	-	1,010	-	9,812
TRANSFERS FROM WIP	-	-	6,382	(6,382)	-
RECLASSIFICATION FROM LEASES	3,440	-	-	4	3,444
AT 31 DECEMBER 2019	21,716	2,803	37,508	242	62,269
DEPRECIATION					
AT 1 JANUARY 2019	(903)	(2,255)	(23,046)	-	(26,204)
TRANSFERS (RECLASSIFICATION)	(484)	-	-	-	(484)
INITIAL RECOGNITION OF IFRS 16	(3,229)	-	(608)	-	(3,837)
CHARGE FOR THE YEAR	(120)	(204)	(1,754)	-	(2,078)
AT 31 DECEMBER 2019	(4,736)	(2,459)	(25,408)	-	(32,603)
NET CARRYING VALUE					
AT 31 DECEMBER 2018	2,567	548	5,552	4,405	13,072
AT 31 DECEMBER 2019	16,980	344	12,100	242	29,666

As at 31 December 2019, Property and Equipment includes Right of Use Assets of Shs 13,497 million (note 34 (a)) related to leased branches & office premises and other equipment.

20. Operating lease prepayments

	2019 SHS M	2018 SHS M
COST		
AT 1 JANUARY	3,440	3,440
RECLASSIFICATION TO RIGHT OF USE ASSET (BUILDINGS)	(3,440)	-
ADDITIONS	-	-
AT 31 DECEMBER	-	3,440
AMORTISATION		
AT 1 JANUARY	484	437
RECLASSIFICATION TO RIGHT OF USE ASSET (BUILDINGS)	(484)	
CHARGE FOR THE YEAR	47	47
RECLASSIFICATION TO RIGHT OF USE ASSET (BUILDINGS)	(47)	
AT 31 DECEMBER	-	484
NET BOOK VALUE AT 31 DECEMBER	-	2,956

The above amounts relate to banking premises leased for a 99 year period.

21. Intangible assets

	2019 SHS M	2018 SHS M
NET BOOK AMOUNT AT 1 JANUARY	4,737	9,781
ADDITIONS: COMPUTER SOFTWARE	572	348
TRANSFERS BETWEEN INTANGIBLE AND TANGIBLE WIP ASSETS	81	(3,998)
WRITE-OFFS	(39)	-
AMORTISATIONS	(1,176)	(1,394)
NET BOOK AMOUNT AT 31 DECEMBER	4,175	4,737
COST	13,758	13,144
ACCUMULATED DEPRECIATION	(9,583)	(8,407)
NET BOOK AMOUNT	4,175	4,737

The intangible assets relate to computer software acquired to support the Bank's operations.

22. Customer deposits

	2019 SHS M	2018 SHS M
a. CURRENT AND DEMAND DEPOSITS	**267,851**	**292,609**
SAVINGS ACCOUNTS	226,390	191,210
FIXED DEPOSIT ACCOUNTS	63,392	67,420
MARGIN DEPOSITS	20,930	17,628
TOTAL	578,563	568,867

b. Sectoral analysis - customer deposits

	2019 SHS M	2018 SHS M
BANKS AND FINANCIAL INSTITUTIONS	31,087	46,892
PRIVATE ENTERPRISES AND INDIVIDUALS	266,105	231,580
GOVERNMENT AND PARASTATALS	22,759	14,096
AGRICULTURE	15,137	19,313
BUILDING AND CONSTRUCTION	32,927	55,125
MANUFACTURING	18,095	9,650
TRADE AND COMMERCE	50,523	52,750
TRANSPORT AND UTILITIES	27,685	30,256
OTHER SERVICES	114,245	109,205
TOTAL	578,563	568,867

The customer deposits above are both interest and non-interest bearing. The weighted average effective interest rate on customer deposits 1.6% (2018: 1.4%).

23. Deposits and balances due to other banking institutions

	2019 SHS M	2018 SHS M
TEMS IN COURSE OF COLLECTION	6,581	39,435
TERM DEPOSITS	-	-
TOTAL	6,581	39,435

Term deposits with other banking institutions are interest bearing. The weighted average effective interest rate on deposits and balances due to other banking institutions was 3.7% (2018: 2.9%).

24. Other borrowings

	2019 SHS M	2018 SHS M
EIB - PRIVATE ENTERPRISE FINANCE FACILITY	418	611
BOU AGRICULTURAL CREDIT FACILITY	190	273
	608	884

The EIB - Private Enterprise Finance Facility relates to a line of credit granted to the Bank for financing projects to be carried out in Uganda by private enterprises or microfinance institutions in selected sectors. Each tranche of these funds attracts a fixed rate based on the twelve month average of interest rates offered by Ugandan deposit-taking banks for three months term deposits as published by Central Bank plus a margin which averaged 10.5% for 2019. Each tranche has a minimum tenor of three years and a maximum tenor of ten years.

The Bank of Uganda (BOU) Agricultural Credit Facility relates to a partnership between the Government of Uganda and commercial banks to facilitate farmers in acquisition of agricultural and agro-processing machinery and equipment. This facility attracts a fixed interest rate of 10% and has a maximum tenor of eight years.

25. Other liabilities

	2019 SHS M	2018 SHS M
BILLS PAYABLE	908	833
CREDITORS	5,478	5,280
LEASE LIABILITY	12,445	11,413
ACCRUALS	14,920	-
OTHER PAYABLES	1,000	425
TOTAL	34,751	17,951

The carrying amounts of other liabilities approximate to fair values.

26. Deferred income tax asset

Deferred income taxes are calculated on all temporary differences under the liability method using the applicable tax rate of 30%. The net deferred tax asset comprises:

	2019 SHS M	2018 SHS M
ACCELERATED CAPITAL ALLOWANCES	(1,364)	(626)
TAX LOSSES BROUGHT FORWARD	14,692	17,111
LEASES	186	-
PROVISIONS FOR LOAN IMPAIRMENT	1,098	1,757
OTHER PROVISIONS	1,703	783
UNREALISED TRANSLATION DIFFERENCES	(8)	(124)
NET DEFERRED TAX ASSET	16,307	18,901

The movement on the deferred tax asset account is as follows:

	2019 SHS M	2018 SHS M
AT START OF YEAR	18,901	18,421
ADJUSTMENT THROUGH THE RETAINED EARNINGS	-	896
ADJUSTED THROUGH PROFIT AND LOSS:		
- PRIOR YEAR OVER PROVISION FOR DEFERRED TAX	-	16
- INCOME STATEMENT CHARGE – CURRENT YEAR (NOTE 13)	(2,594)	(432)
AT END OF YEAR	16,307	18,901

27. Share capital

	NUMBER OF SHARES ISSUED AND FULLY PAID (THOUSANDS)	ORDINARY SHARES SHS M	SHARE PREMIUM SHS M
2018			
BALANCE AT 1 JANUARY 2018	46,775	46,775	23,614
BALANCE AT 31 DECEMBER 2018	46,775	46,775	23,614
2019			
BALANCE AT 1 JANUARY 2019	46,775	46,775	23,614
BALANCE AT 31 DECEMBER 2019	46,775	46,775	23,614

The total authorised number of ordinary shares is Shs 46.7 million (2018: Shs 46.7 million) with a par value of Shs 1,000 per share. The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Bank. All ordinary shares rank equally with regard to the Bank's residual assets.

28. Bank shareholding

The Bank shareholders are as follows:

	HOLDING	COUNTRY OF INCORPORATION
BANK OF AFRICA - KENYA LTD.	5.91%	KENYA
AFRICAN FINANCIAL HOLDING (AFH) - OCEAN INDIEN	37.96%	MAURITIUS
BMCE BANK	47.41%	MOROCCO
NETHERLANDS DEVELOPMENT FINANCE COMPANY (FMO)	0.96%	THE NETHERLANDS
CENTRAL HOLDINGS LTD.	7.76%	UGANDA
TOTAL	100.00%	

29. Analysis of cash and cash equivalents

	2019 SHS M	2018 SHS M
CASH AND BALANCES WITH BANK OF UGANDA (NOTE 14)	98,198	81,711
DEPOSITS AND BALANCES DUE FROM OTHER BANKS (NOTE 15)	16,374	66,592
AMOUNTS DUE FROM GROUP COMPANIES (NOTE 32 (A))	31,573	48,571
TOTAL	146,145	196,874

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with central bank, treasury bills and other eligible bills, and amounts due from other banks. Cash and cash equivalents also excludes the cash reserve requirement held with BOU.

The Bank is required to maintain prescribed minimum cash reserve balances with Bank of Uganda for 14 day periods. The amount for a given current period, is determined as 8% of the average daily outstanding customer deposits over the previous two week cash reserve cycle period. The Cash reserve balances held while available for use in the Bank's day to day activities are only allowed to fluctuate to lower amounts not less than 50% of the mandatory 2 week average requirement on any given day provided. However, the average for such a period should not be lower than the minimum requirements, and is subject to sanctions for non-compliance.

30. Earnings per share

	2019 SHS M	2018 SHS M
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK (MILLION SHS)	20,154	15,148
WEIGHTED AVERAGE NUMBER OF PAID UP ORDINARY SHARES (THOUSANDS)	46,775	46,775
EARNINGS PER SHARE (EXPRESSED IN SHS PER SHARE)	430.87	323.85

There were no potentially dilutive shares outstanding at 31 December 2019 (2018: Nil).

31. Dividends

	2019		2018	
	PER SHARE USHS	TOTAL SHS M	PER SHARE USHS	TOTAL SHS M
PROPOSED DIVIDENDS	195.00	9,121	181.36	8,483

At the annual general meeting to be held in 2020, a dividend of Shs 195.00 per share amounting to Shs 9,121 million in total is to be proposed (2018: 181.36). The payment of dividends is subject to withholding tax at rates depending on the tax status or residence of the recipient.

32. Related parties and large exposures

a. Parent and ultimate controlling party

During the year 31 December 2019, BMCE Bank acquired by purchase from BOA-KENYA (17,461,771) and FMO (4,714,683) a total of 22,176,454 shares directly in BANK OF AFRICA – UGANDA Limited to become the Bank's direct majority shareholder at 47.41%. BMCE Bank is also the ultimate controlling party.

b. Due from group companies

	2019 SHS M	2018 SHS M
BANK OF AFRICA – RDC	-	9,266
BOA-FRANCE	5,733	10,728
BANK OF AFRICA – KENYA	8,232	450
BANK OF AFRICA – GHANA	-	16,775
BANK OF AFRICA – TANZANIA	14,873	40
BANK OF AFRICA – RWANDA	18	15
BMCE BANK OF AFRICA	2,717	11,297
TOTAL	31,573	48,571

These are current account balances and overnight placements measured at amortised cost and held for liquidity management reasons. They have a weighted average interest rate of 1.2%. The entities above are sister Banks with BMCE Bank of Africa as ultimate beneficial owner.

c. Amounts due to group companies

	2019 SHS M	2018 SHS M
BANK OF AFRICA – MER ROUGE	53,778	54,399
BANK OF AFRICA – KENYA	2,745	28
BANK OF AFRICA – TANZANIA	7	13
BANK OF AFRICA – RDC	942	2,195
BANK OF AFRICA – RWANDA	83	1,748
BMCE BANK OF AFRICA	20	20
TOTAL	57,575	58,403

These are current account balances and medium term borrowings (1 year) measured at amortised cost and have a weighted average interest rate of 3.75%. The medium term borrowings are held for direct participation on credit facilities. The entities above are sister Banks with BMCE Bank Of Africa as ultimate beneficial owner.

d. Related party balances

	2019 SHS M	2018 SHS M
DEPOSITS FROM DIRECTORS AND SHAREHOLDERS	112	40
LOANS TO DIRECTORS	-	396
ADVANCES TO STAFF	8,487	8,761
TOTAL	8,487	9,157

The largest exposure to a related party was Shs 290 M at a rate of 10 % extended for 7.25 years.

e. Related party transactions

	2019 SHS M	2018 SHS M
INTEREST PAID TO RELATED PARTIES/ DIRECTORS		
BANK OF AFRICA – MER ROUGE	1,596	1,605
BANK OF AFRICA – KENYA	31	5
TOTAL	1,627	1,610

Interest earned from related parties:

	HOLDING	COUNTRY OF INCORPORATION
BANK OF AFRICA – KENYA	201	19
BANK OF AFRICA – TANZANIA	125	7
BANK OF AFRICA – RWANDA	93	-
BMCE TANGIER OFFSHORE TOS	254	-
BANK OF AFRICA – RDC	-	313
BANK OF AFRICA – GHANA	204	105
BMCE BANK INTERNATIONAL	55	103
TOTAL	932	547

Directors' remuneration:

	2019 SHS M	2018 SHS M
DIRECTORS' FEES	978	745
OTHER EMOLUMENTS	5,972	5,671
TOTAL	6,950	6,416

Key management compensation:

	2019 SHS M	2018 SHS M
SALARIES AND SHORT-TERM BENEFITS	5,972	5,116
TERMINAL BENEFITS	203	337
TOTAL	6,175	5,453

f. Large Exposures (exposures with more than 25% of Core Capital)

	2019 SHS M	2018 SHS M
NUMBER OF BORROWERS	3	2
AGGREGATE AMOUNT	81,732	56,336

All amounts in excess of the single obligor limit are cash covered, and none exceeds 50% of Core Capital.

33. Off-balance sheet financial instruments, contingent liabilities and commitments

The Bank conducts business involving acceptances, letters of credit, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties. In addition, there are other off-balance sheet financial instruments including forward contracts for purchase and sale of foreign currencies, the nominal amounts of which are not reflected in the balance sheet.

Letters of credit are commitments by the Bank to make payments to third parties, on production of documents, on behalf of customers and are reimbursed by customers. Letters of guarantee and performance bonds are issued by the Bank, on behalf of customers, to guarantee performance by customers to third parties. The Bank will only be required to meet these obligations in the event of default by the customers. The following are the commitments outstanding at year end:

	2019 SHS M	2018 SHS M
TRADE RELATED AND SELF-LIQUIDATING DOCUMENTARY CREDITS	30,820	23,271
PERFORMANCE BONDS AND STANDBYS	153,660	103,082
LESS: LOSS IMPAIRMENT ALLOWANCE	(109)	(534)
TOTAL	184,371	125,819

There were outstanding legal proceedings against the Bank as at 31 December 2019 which arise from normal day to day banking operations. In the opinion of the directors, after taking professional legal advice, the estimated potential liability to the Bank from these proceedings is Shs 1,070 million (2018: Shs 1,097 million).

Other commitments:

Commitments to lend are agreements to lend to customers in future subject to certain conditions. Such commitments are normally made for fixed periods. The Bank may withdraw from its contractual obligations to extend credit by giving reasonable notice to the customers. At 31 December, these included:

	2019 SHS M	2018 SHS M
COMMITMENTS TO LEND	17,891	17,289
LESS: IMPAIRMENT LOSS ALLOWANCE	(58)	(56)
	17,833	17,233
CURRENCY SWAPS AND FORWARDS PAYABLE	-	-

34. Leases

The Bank leases buildings and other equipment. Information about leases for which the Bank is a lessee is presented below:

a. Right of Use Assets

	BUILDINGS	OFFICE EQUIPMENT	COMPUTER HARDWARE	TOTAL
BALANCE AS AT 1 JANUARY	8,802	842	168	9,812
ADDITIONS	6,004	1,518	-	7,522
DEPRECIATION CHARGE	(3,229)	(562)	(46)	(3,837)
TOTAL	11,577	280	122	13,497

b. Maturity analysis – contractual undiscounted cash flows

	2019 SHS M	2018 SHS M
LESS THAN 1 YEAR	3,474	-
1 YEAR – 5 YEARS	10,023	-
MORE THAN 5 YEARS	-	-
TOTAL UNDISCOUNTED CASH FLOWS 31 DECEMBER	13,497	-

Lease Liabilities Included in the statement of Financial Position as at 31 December 2019.

c. Lease liabilities

	2019 SHS M	2018 SHS M
CURRENT LEASE LIABILITIES	265	-
NON – CURRENT LEASE LIABILITIES	12,078	-
MORE THAN 5 YEARS	102	-
TOTAL LEASE LIABILITIES	12,445	-

d. Amounts recognised in the profit or loss

	2019 SHS M	2018 SHS M
INTEREST ON LEASE LIABILITIES	1,317	-
EXPENSES RELATING TO SHORT TERM LEASES	-	-
EXPENSES RELATING TO LEASES OF LOW VALUE ASSETS	1,436	-
TOTAL LEASE LIABILITIES	2,753	-

35. Subsequent events disclosures

The COVID 19 outbreak subsequent to year end creates uncertainties and an indirect impact on the key inputs used in the ECL calculations especially around macro-economic variables such as GDP, CBR, inflation and foreign exchange. The potential impact of this cannot be reliably estimated and as such financial statements are not adjusted to reflect this impact.